

These financial statements for Trulieve Cannabis Corp. are also included in the Form 10-K for the year ended December 31, 2021 filed on SEDAR on March 30, 2022 in its entirety.

TRULIEVE CANNABIS CORP.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Trulieve Cannabis Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Trulieve Cannabis Corp. (the "Company") as of December 31, 2021, the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has elected to change its method of accounting for deferred tax assets and liabilities in acquisitions.

/s/ **Marcum LLP**

Marcum LLP

We have served as the Company's auditor since 2021.

West Palm Beach, FL
March 30, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Trulieve Cannabis Corp.

Opinion on the Consolidated Financial Statements

We have audited, before the effects of the adjustments for the Change in Accounting Principle and the Revision of Previously Issued Financial Statements described in Note 2, the accompanying consolidated balance sheet of Trulieve Cannabis Corp. (the Company) as of December 31, 2020, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements, before the effects of the adjustments for the Change in Accounting Principle and the Revision of Previously Issued Financial Statements described in Note 2, present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020, and the results of its consolidated operations and its consolidated cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the adjustments for the Change in Accounting Principle and the Revision of Previously Issued Financial Statements described in Note 2 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by the successor auditor.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MNP LLP

Chartered Professional Accountants;

Licensed Public Accountants

We have served as the Company's auditor since 2018.

Ottawa, Canada
March 22, 2021

TRULIEVE CANNABIS CORP.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 230,646	\$ 146,713
Restricted cash	3,013	—
Accounts receivable, net	8,854	308
Inventories, net	212,188	98,312
Prepaid expenses and other current assets	68,189	16,119
Notes receivable - current portion	1,530	—
Total current assets	524,420	261,452
Property and equipment, net	779,916	314,045
Right of use assets - operating, net	125,973	30,076
Right of use assets - finance, net	66,764	36,904
Intangible assets, net	1,117,982	92,596
Goodwill	765,358	67,176
Other assets	18,312	7,527
Notes receivable, net	12,147	—
TOTAL ASSETS	\$ 3,410,872	\$ 809,776
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	94,073	41,199
Income tax payable	27,610	5,875
Deferred revenue	7,168	7,178
Notes payable - current portion, net	10,052	2,000
Notes payable - related party - current portion	—	12,011
Operating lease liabilities - current portion	9,840	3,277
Finance lease liabilities - current portion	6,185	3,877
Construction finance liabilities - current portion	991	—
Contingencies	13,017	704
Total current liabilities	168,936	76,121
Long-Term Liabilities:		
Notes payable	6,456	4,000
Warrant liabilities	2,895	—
Operating lease liabilities	122,130	28,120
Finance lease liabilities	65,244	35,058
Private placement notes, net	462,929	117,165
Other long-term liabilities	8,400	3,915
Construction finance liabilities	175,198	82,047
Deferred tax liabilities	251,311	15,447
TOTAL LIABILITIES	1,263,499	361,873
Commitments and contingencies (see Note 20)		
SHAREHOLDERS' EQUITY		
Common Stock, no par value; unlimited shares authorized as of December 31, 2021 and 2020. 180,504,172 issued and outstanding as of December 31, 2021 and 119,573,998 issued and outstanding as of December 31, 2020, respectively.		
Additional paid-in-capital	2,008,100	328,214
Accumulated earnings	137,721	119,689
Non-controlling interest	1,552	—
TOTAL SHAREHOLDERS' EQUITY	2,147,373	447,903
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,410,872	\$ 809,776

The accompanying notes are an integral part of these consolidated financial statements.

TRULIEVE CANNABIS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)

	2021	2020	2019
Revenues, net of discounts	\$ 938,385	\$ 521,533	\$ 252,819
Cost of goods sold	372,255	135,116	60,982
Gross profit	566,130	386,417	191,837
Expenses:			
Sales and marketing	215,144	119,395	59,349
General and administrative	100,573	36,056	14,071
Depreciation and amortization	48,096	12,600	5,079
Loss on impairment and disposal of long-lived assets	5,371	63	67
Total expenses	369,184	168,114	78,566
Income from operations	196,946	218,303	113,271
Other income (expense):			
Interest expense	(34,787)	(20,237)	(9,050)
Change in fair value of derivative liabilities - warrants	208	(42,679)	(806)
Other income, net	1,139	2,062	266
Total other expense	(33,440)	(60,854)	(9,590)
Income before provision for income taxes and non-controlling interest	163,506	157,449	103,681
Provision for income taxes	146,061	94,451	50,586
Net income and comprehensive income	17,445	62,998	53,095
Less: Net loss and comprehensive loss attributed to non-controlling interest	(587)	—	—
Net income and comprehensive income attributed to common shareholders	\$ 18,032	\$ 62,998	\$ 53,095
Basic net income per common shareholder	\$ 0.13	\$ 0.55	\$ 0.48
Diluted net income per common shareholder	\$ 0.12	\$ 0.53	\$ 0.46
Weighted average number of common shares used in computing net income per common share:			
Basic	139,366,940	113,572,379	110,206,103
Diluted	146,757,286	118,325,724	115,317,942

The accompanying notes are an integral part of these consolidated financial statements.

TRULIEVE CANNABIS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands, except share amounts)

	Super Voting Shares	Multiple Voting Shares	Subordinate Voting Shares	Total Common Shares	Additional Paid-in- Capital	Accumulated Earnings	Non- Controlling Interest	Total
Balance, January 1, 2019	85,246,600	13,750,451	11,135,117	110,132,168	75,218	3,596	—	78,814
Market interest debt	—	—	—	—	10	—	—	10
Conversions of Super and Multiple Voting Shares to Subordinate Voting Shares	(17,433,300)	(7,089,077)	24,522,377	—	—	—	—	—
Shares issued for cash - warrant exercises	—	—	214,178	214,178	964	—	—	964
Net income and comprehensive income	—	—	—	—	—	53,095	—	53,095
Balance, December 31, 2019	<u>67,813,300</u>	<u>6,661,374</u>	<u>35,871,672</u>	<u>110,346,346</u>	<u>\$ 76,192</u>	<u>\$ 56,691</u>	<u>\$ —</u>	<u>\$ 132,883</u>
Share-based compensation	—	—	—	—	2,765	—	—	2,765
Reclassification of warrants to equity	—	—	—	—	52,570	—	—	52,570
Shares issued for cash - warrant exercises	—	—	2,723,411	2,723,411	11,459	—	—	11,459
Contingent consideration payable in shares	—	—	—	—	65,000	—	—	65,000
Exercise of stock options	—	—	9,180	9,180	—	—	—	—
Issuance of shares in private placement, net of issuance costs	—	—	4,715,000	4,715,000	83,228	—	—	83,228
Shares issued for PurePenn, LLC and Solevo Wellness acquisitions	—	—	1,780,061	1,780,061	37,000	—	—	37,000
Conversions of Multiple Voting to Subordinate Voting Shares	(9,630,800)	(5,222,337)	14,853,137	—	—	—	—	—
Net income and comprehensive income	—	—	—	—	—	62,998	—	62,998
Balance, December 31, 2020	<u>58,182,500</u>	<u>1,439,037</u>	<u>59,952,461</u>	<u>119,573,998</u>	<u>\$ 328,214</u>	<u>\$ 119,689</u>	<u>\$ —</u>	<u>\$ 447,903</u>
Share-based compensation	—	—	—	—	9,254	—	—	9,254
Exercise of stock options	—	—	75,716	75,716	352	—	—	352
Shares issued for cash - warrant exercises	—	—	569,533	569,533	7,672	—	—	7,672
Common stock issued upon cashless warrant exercise	—	—	2,075,987	2,075,987	—	—	—	—
Tax withholding related to net share settlements of equity awards	—	—	(39,898)	(39,898)	(1,072)	—	—	(1,072)
Issuance of shares in private placement, net of issuance costs	—	—	5,750,000	5,750,000	217,896	—	—	217,896
Contingent consideration payable in shares	—	—	—	—	(2,800)	—	—	(2,800)
Conversion of Super Voting Shares to Subordinate Voting Shares	(3,021,100)	—	3,021,100	—	—	—	—	—
Conversion of Super Voting Shares to Multiple Voting Shares	(55,161,400)	55,161,400	—	—	—	—	—	—
Conversion of Multiple Voting to Subordinate Voting Shares	—	(4,683,438)	4,683,438	—	—	—	—	—
Adjustment of fair value of equity consideration for PurePenn, LLC	—	—	—	—	2,711	—	—	2,711
Adjustment of fair value of equity consideration for Keystone Relief Centers, LLC	—	—	—	—	1,004	—	—	1,004
Shares issued for Mountaineer Holding, LLC acquisition	—	—	60,342	60,342	2,470	—	—	2,470
Shares issued for Solevo Wellness West Virginia, LLC acquisition	—	—	11,658	11,658	445	—	—	445
Shares issued for Nature's Remedy of Massachusetts, Inc. acquisition	—	—	237,881	237,881	9,139	—	—	9,139
Shares issued for the Patient Centric of Martha's Vineyard Ltd. acquisition	—	—	258,383	258,383	10,012	—	—	10,012
Shares issued for Keystone Shops acquisition	—	—	1,009,336	1,009,336	35,385	—	—	35,385
Shares issued for Harvest Health & Recreation, Inc. acquisition	—	—	50,921,236	50,921,236	1,387,418	—	2,139	1,389,557
Net income and comprehensive income	—	—	—	—	—	18,032	(587)	17,445
Balance, December 31, 2021	<u>—</u>	<u>51,916,999</u>	<u>128,587,173</u>	<u>180,504,172</u>	<u>\$ 2,008,100</u>	<u>\$ 137,721</u>	<u>\$ 1,552</u>	<u>\$ 2,147,373</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRULIEVE CANNABIS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	2021	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Net income and comprehensive income	\$ 17,445	\$ 62,998	\$ 53,095
Adjustments to reconcile net income and comprehensive income to net cash provided by operating activities:			
Depreciation and amortization	48,096	12,600	5,079
Depreciation and amortization included in cost of goods sold	24,073	11,542	7,992
Accretion of debt discount and issuance cost	3,463	2,476	665
Loss on impairment of long-lived assets	3,571	—	—
Loss on disposal of property and equipment	1,800	63	67
Amortization of operating lease right of use assets	6,051	6,045	2,733
Accretion of construction finance liabilities	1,209	413	184
Share-based compensation	9,254	2,765	—
Change in fair value of derivative liabilities - warrants	(208)	42,679	806
Change in legal contingencies	9,269	—	—
Deferred income tax expense	(26,262)	(4,887)	(908)
Changes in operating assets and liabilities:			
Inventories	(19,573)	(22,534)	(54,481)
Accounts receivable	(4,901)	1,110	—
Prepaid expenses and other current assets	(8,080)	(4,502)	(5,224)
Other assets	(6,276)	(9,685)	147
Accounts payable and accrued liabilities	(9,659)	298	13,586
Other current liabilities	(15,799)	704	—
Operating lease liabilities	(4,164)	(4,764)	(2,825)
Other long-term liabilities	1,210	—	3,915
Income tax payable	(12,979)	(2,452)	(6,735)
Deferred revenue	(4,642)	4,774	977
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,898	99,643	19,073
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(275,902)	(99,941)	(71,834)
Purchases of property and equipment from construction	(20,979)	(41,116)	(2,571)
Capitalized interest	(9,234)	(4,803)	(471)
Payments made for issuance of note receivable	(4,000)	—	—
Purchases of internal use software	(3,716)	—	—
Acquisitions, net of cash acquired	43,453	(27,923)	(19,825)
Proceeds from sale of intangible asset	54,996	—	—
Proceeds received from notes receivable	160	—	—
Proceeds from sale of property and equipment	38	16	29
Cash paid to acquire license agreement	—	(887)	—
NET CASH USED IN INVESTING ACTIVITIES	(215,184)	(174,654)	(94,672)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from private placement notes, net of discounts	342,586	—	122,215
Proceeds from issuance of notes payable	6,032	—	—
Proceeds from shares issued pursuant to private placement, net of issuance costs	217,896	83,228	—
Proceeds from warrant exercises	7,672	11,459	964
Proceeds from stock option exercises	352	—	—
Proceeds from construction finance liabilities	13,250	41,116	23,071
Payments on notes payable	(280,788)	—	—
Payments on notes payable - related party	(12,011)	(941)	(1,520)
Payments for debt issuance costs	(251)	—	—
Payments for taxes related to net share settlement of equity awards	(1,072)	—	—
Payments on finance lease liabilities	(4,434)	(4,951)	(1,748)
NET CASH PROVIDED BY FINANCING ACTIVITIES	289,232	129,911	142,982
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	86,946	54,900	67,383
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	146,713	91,813	24,430
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	\$ 233,659	\$ 146,713	\$ 91,813
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
CASH PAID FOR			
Interest	\$ 39,075	\$ 22,135	\$ 7,417
Income taxes	178,657	105,248	43,658
NONCASH INVESTING AND FINANCING ACTIVITIES			
Value of shares issued for acquisitions	1,447,973	37,000	—
Value of shares reserved for PurePenn, LLC and Solevo Wellness acquisitions	(2,800)	65,000	—
Acquisition fair value adjustments	3,964	—	—
Purchase of property and equipment financed with accounts payable	17,861	13,613	6,516
Purchase of property and equipment financed with notes payable - related party	—	—	257
ASC 842 lease additions - operating and finance leases	61,195	33,647	42,272
ASC 842 lease terminations	1,035	—	—
Debt discount related to below market interest bet	—	—	10

The accompanying notes are an integral part of these consolidated financial statements.

TRULIEVE CANNABIS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS

Trulieve Cannabis Corp. together with its subsidiaries (“Trulieve” or the “Company”) was incorporated in British Columbia, Canada. Trulieve (through its wholly-owned licensed subsidiary, Trulieve, Inc.) is a vertically integrated cannabis company which, as of December 31, 2021, held licenses to operate in Florida, California, Connecticut, Pennsylvania, Massachusetts, West Virginia, Arizona, Colorado, Maryland, and Nevada, to cultivate, produce, and sell medicinal-use cannabis products, and with respect to Arizona, California, Colorado, Nevada, and Massachusetts, adult-use cannabis products, and have received notice of intent to award a license in Georgia.

In addition to the States listed above, the Company also conducts activities in other markets. In these markets, the Company has either applied for licenses, plans on applying for licenses, or partners with other entities, but does not currently directly own any cultivation, production or retail licenses.

In July 2018, Trulieve, Inc. entered into a non-binding letter agreement (“Letter Agreement”) with Schyan Exploration Inc. (“Schyan”) whereby Trulieve, Inc. and Schyan have agreed to merge their respective businesses resulting in a reverse takeover of Schyan by Trulieve, Inc. and change the business of Schyan from a mining issuer to a marijuana issuer (the “Transaction”). The Transaction was completed in August 2018 and Schyan changed its name to Trulieve Cannabis Corp.

The Company’s principal address is located in Quincy, Florida. The Company’s registered office is located in British Columbia. Our operations are substantially located in Florida and to a lesser extent Arizona and Pennsylvania.

The Company is listed on the Canadian Securities Exchange (the “CSE”) and began trading on September 25, 2018, under the ticker symbol “TRUL” and trades on the OTCQX market under the symbol “TCNNF”.

NOTE 2. BASIS OF PRESENTATION

Principles of consolidation

The accompanying financial statements for the years ended December 31, 2021, 2020, and 2019 include the financial position and operations of Trulieve Cannabis Corp. and its subsidiaries. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the assets, liabilities, revenue and expenses of all wholly-owned subsidiaries and variable interest entities for which we have determined that we are the primary beneficiary. Outside shareholders’ interests in subsidiaries are shown on the consolidated financial statements as non-controlling interests. Material intercompany balances and transactions are eliminated in consolidation.

A variable interest entity (“VIE”) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support, is structured such that equity investors lack the ability to make significant decisions relating to the entity’s operations through voting rights, or do not substantively participate in the gains and losses of the entity. Upon inception of a contractual agreement, the Company performs an assessment to determine whether the arrangement contains a variable interest in a legal entity and whether that legal entity is a VIE. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the VIE entity that could potentially be significant to the VIE. Where the Company concludes it is the primary beneficiary of a VIE, the Company consolidates the accounts of that VIE. When the Company is not the primary beneficiary, the VIE is accounted for using the equity method and is included in equity method investments on the consolidated balance sheets.

The Company regularly reviews and reconsiders previous conclusions regarding whether it is the primary beneficiary of a VIE in accordance with FASB ASC 810. The Company also reviews and reconsiders previous conclusions regarding whether the Company holds a variable interest in a potential VIE, the status of an entity as a VIE, and whether the Company is required to consolidate such a VIE in the consolidated financial statements when a change occurs.

Basis of Measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for certain financial instruments that are measured at fair value as described herein.

Functional Currency

The functional currency of the Company and its subsidiaries, as determined by management, is the United States (“U.S.”) dollar. These consolidated financial statements are presented in U.S. dollars.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements of prior periods and the of accompanying notes to conform to the current period presentation. The significant reclassifications related to updates to the classification and disaggregation of certain assets and liabilities on the consolidated balance sheet and the consolidated statements of cash flows and disaggregation of certain expenses on the consolidated statements of operations and comprehensive income.

Change in Accounting Principle

In the fourth quarter of 2021, the Company elected to change its accounting principle for measuring deferred tax assets and liabilities in acquisitions. Under the new principle, tax basis is determined by applying the relevant tax laws, whereas previously, tax basis was determined by upon the future deductibility of the recovery or settlement. This change in accounting principle resulted in a reduction of the acquired assets fair value, (or in some instances goodwill) and the corresponding deferred tax liabilities. The Company believes this change in principle is preferable as it supported by authoritative guidance and standard practice in the industry.

This change in accounting principle has been applied retrospectively, and the consolidated balance sheets reflect the effect of this accounting principle change in all years presented. This change in accounting principle had an insignificant impact on the consolidated statements of operations and comprehensive income and the consolidated statements shareholders’ equity. There was no impact on the consolidated statements of cash flows. See the table below in *Revision of Previously Issued Financial Statements* for the effects of the change in principle for acquired assets on the consolidated balance sheet as of December 31, 2020.

Revision of Previously Issued Financial Statements

During the year ending December 31, 2021, the Company identified an error in its accounting for leases which was due to the lack of a complete lease population and the conclusions reached for the commencement date for leases not aligning with the possession date of the associated right of use asset. This resulted in an understatement of the associated right of use assets and the associated lease liabilities for the previously reported December 31, 2020, results. The Company also identified a misstatement related to the accounting for asset acquisitions that were consummated during the three months ended June 30, 2021, which was due to the Company initially valuing the equity consideration transferred using the contract value whereas the fair value as of the closing date should have been used. This resulted in an understatement of intangible assets, an understatement of the associated deferred tax liabilities and an understatement of additional paid-in-capital. Additionally, the Company identified assets not likely to be converted within a year were classified as prepaid expenses and other current assets, rather than other assets.

The Company evaluated the misstatements and concluded that the misstatements were not material, either individually or in the aggregate, to its current or previously issued consolidated financial statements.

To correct the immaterial misstatements, during the year ended December 31, 2021, the Company elected to revise its previously issued December 31, 2020, consolidated balance sheet. The revision of the historical consolidated balance sheet includes the correction of these immaterial misstatements as well as other previously identified balance sheet misclassifications. Accordingly, the accompanying annual audited consolidated balance sheet and relevant footnotes in this Annual on Form 10-K as well as the 2020 consolidated balance sheet have been revised to correct for such immaterial misstatements.

Accordingly, the accompanying December 31, 2020, consolidated balance sheet has been revised to correct for such immaterial misstatements.

The impact of the revision and the change in accounting principle on the Company’s consolidated balance sheet as of December 31, 2020, is reflected in the following table:

Balance Sheet as of December 31, 2020	As Previously Reported	Revisions	Change in Principle	As Revised
		<i>(in thousands)</i>		
Prepaid expenses and other current assets	\$ 19,815	\$ (3,696)	\$ —	\$ 16,119
Total current assets	265,148	(3,696)	—	261,452
Right of use assets - operating, net	28,171	1,905	—	30,076
Intangible assets, net	93,800	—	(1,204)	92,596
Goodwill	74,100	—	(6,924)	67,176
Other assets	3,944	3,583	—	7,527
Total assets	816,112	1,792	(8,128)	809,776
Operating lease liabilities, current portion	3,154	123	—	3,277
Total current liabilities	75,998	123	—	76,121
Operating lease liabilities	26,450	1,670	—	28,120
Deferred tax liabilities	23,575	—	(8,128)	15,447
Total liabilities	\$ 368,208	\$ 1,793	\$ (8,128)	361,873

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Company are as follows:

Cash and Cash Equivalents

The Company considers cash deposits and all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash deposits in financial institutions plus cash held at retail locations. Cash held in money market investments are carried at fair value, cash held in financial institutions and cash held at retail locations, have carrying values that approximate fair value.

Restricted Cash

Restricted cash balances are those which meet the definition of cash and cash equivalents but are not available for use by the Company. As of December 31, 2021 restricted cash was \$3.0 million, which represented cash consideration set aside as a reserve in relation to an escrow held for a pending legal settlement. Restricted cash was released subsequent to year-end as the litigation was settled in December 2021 and final escrow was released in January 2022. See further information in *Note 20. Commitment and Contingencies*. Reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets as of December 31, 2021 was \$230.7 million and \$3.0 million, respectively, which sums to the cash, cash equivalents and restricted cash reported on the consolidated statements of cash flows as of December 31, 2021 of \$233.7 million. There was no restricted cash as of December 31, 2020.

Inventory

Inventories are primarily comprised of raw materials, internally produced work in process, finished goods and packaging materials. Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion, disposal and transportation for inventories in process. Cost is determined using the weighted average cost method.

Costs incurred during the growing and production process are capitalized as incurred to the extent that cost is less than net realizable value. These costs include materials, labor and manufacturing overhead used in the growing and production processes. The Company capitalizes pre-harvest costs.

The Company periodically reviews its inventory and identifies that which is excess, slow moving and obsolete by considering factors such as inventory levels, expected product life and forecasted sales demand. Any identified excess, slow moving and obsolete inventory is written down to its net realizable value through a charge to cost of goods sold.

Accounts Receivable and Notes Receivable

The Company reports accounts receivable at their net realizable value, which is management's best estimate of the cash that will ultimately be received from customers. The Company's notes receivable represent notes due from various third parties. The Company maintains an allowance for expected credit losses to reflect the expected

uncollectability of accounts receivable and notes receivable based on historical collection data and specific risks identified among uncollected accounts, as well as management's expectation of future economic conditions. The Company also considers relevant qualitative and quantitative factors to assess whether historical loss experience should be adjusted to better reflect the risk characteristics of the companies receivables and the expected future losses. If current or expected future economic trends, events, or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Trade accounts receivable and notes receivable are written off after exhaustive collection efforts occur and the receivable is deemed uncollectible.

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation. Depreciation is recognized on a straight-line basis over the following estimated useful lives:

Land	Not depreciated
Land improvements	20 to 30 years
Buildings & improvements	7 to 40 years
Furniture & equipment	3 to 10 years
Vehicles	3 to 5 years
Construction in progress	Not depreciated
Leasehold improvements	The lessor of the life of the lease or the estimated useful life of the asset

The Company capitalizes interest on debt financing invested in projects under construction. Upon the asset becoming available for use, capitalized interest costs, as a portion of the total cost of the asset, are depreciated over the estimated useful life of the related asset.

The Company classifies assets as held for sale and ceases depreciation of the assets when there is a plan for disposal of the assets and those assets meet the held for sale criteria. Gains or losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in the statements of operations and comprehensive income. Construction in progress is transferred when available for use and depreciation of the assets commences at that point.

The Company reviews properties for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable.

Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively.

Intangible assets are amortized using the straight-line method over estimated useful lives as follows:

Licenses	15 years
Internal use software	3 to 5 years
Tradenames	2 to 10 years
Customer relationship	1 to 5 years
Non-compete	2 years
Trademarks	1 to 5 years

Impairment of long-lived assets

The Company reviews long-lived assets, including property and equipment and definite life intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of projected undiscounted cash flows is less than the carrying value of the asset group. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group.

Business combinations and goodwill

The Company accounts for business combinations using the acquisition method in accordance with Accounting Standards Codification ASC 805, *Business Combinations* which requires recognition of assets acquired and liabilities assumed, including contingent assets and liabilities, at their respective fair values on the date of acquisition.

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates, with the corresponding gain or loss recognized in the consolidated statements of operations and comprehensive income.

Non-controlling interests in the acquiree are measured at fair value on acquisition date. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received.

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans and, therefore, no corresponding allowance for loan losses is recorded for such loans at acquisition.

Purchase price allocations may be preliminary and, during the measurement period not to exceed one year from the date of acquisition, changes in assumptions and estimates that result in adjustments to the fair value of assets acquired and liabilities assumed are recorded in the period the adjustments are determined.

Goodwill represents the excess of the consideration transferred for the acquisition of subsidiaries over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Cannabis licenses are the primary intangible asset acquired in business combinations as they provide the Company the ability to operate in each market. However, some cannabis licenses are subject to renewal and therefore there is some risk of non-renewal for several reasons, including operational, regulatory, legal or economic. To appropriately consider the risk of non-renewal, the Company applies probability weighting to the expected future net cash flows in calculating the fair value of these intangible assets. The key assumptions used in these cash flow projections include discount rates and terminal growth rates. Of the key assumptions used, the impact of the estimated fair value of the intangible assets have the greatest sensitivity to the estimated discount rate used in the valuation. The terminal growth rate represents the rate at which these businesses will continue to grow into perpetuity. Other significant assumptions include revenue, gross profit, operating expenses and anticipated capital expenditures which are based upon the Corporation's historical operations along with management projections. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Impairment of goodwill and indefinite-lived intangible assets

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill may have been impaired. In order to determine that the value of goodwill may have been impaired, the Company performs a qualitative assessment to determine that it was more-likely-than-not if the reporting unit's carrying value is less than the fair value, indicating the potential for goodwill impairment. A number of factors, including historical results, business plans, forecasts and market data are used to determine the fair value of the reporting unit. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

The Company operates as one operating segment and reporting unit and therefore, evaluates goodwill and other intangible assets with indefinite lives for impairment as one singular reporting unit annually during the fourth quarter or more often when an event occurs or circumstances indicate the carrying value may not be recoverable. The Company did not identify any impairment of its goodwill during the years ended December 31, 2021, 2020, or 2019.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consists of:

	Year Ended December 31,	
	2021	2020
	<i>(in thousands)</i>	
Trade accounts payable	\$ 14,781	\$ 9,248
Accrued payroll	24,728	11,030
Accrued property and equipment	6,507	3,210
Accrued property and equipment - related party	11,353	10,403
Accrued inventory	8,373	1,415
Accrued insurance	6,620	86
Accrued interest	6,787	—
Accrued utilities	990	202
Sales tax payable	5,352	—
Other payables and accrued liabilities	8,582	5,605
Total accounts payable and accrued liabilities	\$ 94,073	\$ 41,199

Prepaid Expenses and Other Current Assets

Prepaid Expenses and Other Current Assets consists of:

	Year Ended December 31,	
	2021	2020
	<i>(in thousands)</i>	
Prepaid insurance	\$ 10,175	\$ 2,713
Prepaid expenses	17,644	7,332
Tenant improvement receivables	9,806	1,317
Held for sale assets, net	8,719	—
Deposits	9,650	1,798
Other current assets	12,195	2,959
Total prepaids and other current assets	\$ 68,189	\$ 16,119

Leases

The Company enters into leases in the normal course of business, primarily for retail space, production facilities, and equipment used in the production and sale of its products. At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company made an accounting policy election not to recognize right-of-use assets and lease liabilities for leases with a lease term of 12 months or less. Instead lease payments for these leases are recognized as lease expense on a straight-line over the lease term.

The Company recognizes a lease liability equal to the present value of the remaining lease payments, and a right-of-use asset equal to the lease liability, subject to certain adjustments, such as prepaid rents. The right-of-use asset represents the right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The Company uses its incremental borrowing rate to determine the present value of the lease payments. The Company's incremental borrowing rate is the rate of interest that it would have to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

We have lease agreements that contain both lease and non-lease components. For lease agreements entered into or reassessed after the adoption of Accounting Standard's Codification 842, *Leases*, we have elected to combine lease and non-lease components for all classes of assets.

For finance leases, from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, the right-of-use asset is amortized on a straight-line basis and the interest expense is recognized on the lease liability using the effective interest method. For operating leases, lease expense is recognized

on a straight-line basis over the term of the lease and presented as a single charge in the consolidated statements of operations and comprehensive income.

The lease term at the lease commencement date is determined based on the noncancellable period for which the Company has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option, periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The Company considers a number of factors when evaluating whether the options in its lease contracts are reasonably certain of exercise, such as length of time before an option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to the Company's operations, costs to negotiate a new lease, any contractual or economic penalties, and the economic value of leasehold improvements.

Certain lease arrangements contain provisions requiring the Company to remove lessee installed leasehold improvements at the expiration of the lease. As this obligation is a direct result of the Company's decision to install leasehold improvements and does not arise solely because of the lease the Company excludes these obligations from lease payments and variable lease payments. The Company records these obligations as asset retirement obligations. The fair values of these obligations are recorded as liabilities on a discounted basis, which occurs as of lease commencement. In the estimation of fair value, the Company uses assumptions and judgements for an asset retirement obligation. The costs associated with these liabilities are capitalized with the associated leasehold improvement and depreciated over the lease term with the liabilities accreted over the same period. Asset retirement obligations related to our leases were \$0.8 million and zero as of December 31, 2021, and 2020, respectively, and are included in other long-term liabilities in the consolidated balance sheets.

Revenue Recognition

Revenue is recognized by the Company in accordance with ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under ASU 2014-09, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract; and
- Recognize revenue when or as the Company satisfies the performance obligation(s).

The Company's contracts with customers for the sale of dried cannabis, cannabis oil and other cannabis related products consist of multiple performance obligations. Revenue from the direct sale of cannabis to customers for a fixed price is recognized when the Company transfers control of the goods to the customer at the point of sale and the customer has paid for the goods. The Company has a loyalty rewards program that allows customers to earn reward credits to be used on future purchases. Loyalty reward credits issued as part of a sales transaction results in revenue being deferred until the loyalty reward is redeemed by the customer. The loyalty rewards are shown as reductions to 'revenue, net of discounts' line on the accompanying consolidated statements of operations and comprehensive income and included as deferred revenue on the consolidated balance sheet.

Contract assets are defined in the standard to include amounts that represent the right to receive payment for goods and services that have been transferred to the customer with rights conditional upon something other than the passage of time. Contract liabilities are defined in the standard to include amounts that reflect obligations to provide goods and services for which payment has been received. There are no contract assets on unsatisfied performance obligations as of December 31, 2021, and 2020. For some of its locations, the Company offers a loyalty reward program to its dispensary customers. A portion of the revenue generated in a sale must be allocated to the loyalty points earned. The amount allocated to the points earned is deferred until the loyalty points are redeemed or expire. As of December 31, 2021, and 2020, the loyalty liability totaled \$6.7 million and \$5.3 million, respectively, that is included in deferred revenue on the consolidated balance sheets.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are determined based on enacted tax rates and laws for the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to costs of goods sold.

The Company recognizes uncertain income tax positions at the largest amount that is more-likely-than-not to be sustained upon examination by the relevant taxing authority. An uncertain income tax position will be recognized if it has less than a 50% likelihood of being sustained. Recognition or measurement is reflected in the period in which the likelihood changes. Any interest and penalties related to unrecognized tax liabilities are presented within income tax expense in the consolidated statements of operations and comprehensive income.

Non-controlling Interest

Non-controlling interests (“NCI”) represent equity interests owned by outside parties. NCI may be initially measured at fair value or at the NCI’s proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. The Company has elected to measure each NCI at its proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The share of net assets attributable to NCI are presented as a component of equity. NCI’s share of net income or loss is recognized directly in equity. Total income or loss of subsidiaries is attributed to the shareholders of the Company and to the NCI, even if this results in the NCI having a deficit balance. See *Note 21. Variable Interest Entities*.

Financial Instruments

The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, the Company considers all related factors of the asset by market participants in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

Classification of financial instruments

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels, and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 – Observable inputs based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices in active markets, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Unobservable inputs for which there is little or no market data requiring the Company to develop its own assumptions.

Warrants

Warrants are accounted for in accordance with applicable accounting guidance provided in ASC 815 *Derivatives and Hedging – Contracts in Entity’s Own Equity*, as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Warrants classified as liabilities are recorded at fair value and are remeasured at each reporting date until settlement. Changes in fair value is recognized as a component of other (expense) income in the consolidated statements of operations and comprehensive income as change in fair value of derivative liabilities - warrants. Transaction costs allocated to warrants that are presented as a liability were immediately expensed in the statements of operations and comprehensive income. Warrants classified as equity instruments are initially recognized at fair value and are not subsequently remeasured.

Earnings per share

Basic earnings attributable to common shareholders is computed by dividing reported net income attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share attributable to common shareholders is computed by dividing reported net income attributable to common shareholders by the sum of the weighted average number of common shares and the number of dilutive potential common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of share options, warrants, and RSUs and the incremental shares issuable upon conversion of similar instruments.

In computing diluted earnings per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive.

Internal Use Software

The Company capitalizes certain costs in connection with obtaining or developing software for internal use. Further, the Company capitalizes qualifying costs incurred for upgrades and enhancements that result in additional functionality or extend the assets useful life. Amortization of such costs commences when the project is substantially completed and ready for its intended use. Capitalized software development costs are classified as intangible assets, net on the consolidated balance sheets and are amortized using the straight-line method over the estimated useful life of the applicable software.

Advertising Costs

Advertising costs are expensed as incurred and are included in sales and marketing expenses in the accompanying consolidated statements of operations and comprehensive income and totaled \$7.5 million, \$2.1 million and \$1.9 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Held for sale

We classify long-lived assets or disposal groups and related liabilities as held-for-sale when management having the appropriate authority, generally our Board of Directors or certain of our Executive Officers, commits to a plan of sale, the disposal group is ready for immediate sale, an active program to locate a buyer has been initiated and the sale is probable and expected to be completed within one year. Once classified as held-for-sale disposal groups are valued at the lower of their carrying amount or fair value less estimated selling costs. Depreciation on these properties is discontinued at the time they are classified as held for sale, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale. As of December 31, 2021, the Company had \$8.7 million in net assets held for sale which is recorded in prepaid expenses and other current assets in the consolidated balance sheets. The net assets held primarily consist of property and equipment, leases and related liabilities, and a note payable. There were no assets or liabilities held for sale as of December 31, 2020.

Coronavirus Pandemic

In March 2020, the World Health Organization categorized coronavirus disease 2019 (together with its variants, “COVID-19”) as a global pandemic. COVID-19 continues to spread throughout the U.S. and other countries across the world, and the duration and severity of its effects are currently unknown. The Company continues to implement and evaluate actions to strengthen its financial position and support the continuity of its business and operations.

The Company’s consolidated financial statements presented herein reflect estimates and assumptions made by management that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the periods presented. While the Company’s revenue, gross profit and operating income were not impacted during 2021, it remains uncertain of how the future spread of COVID-19 and applicable vaccine mandates or public health measures may impact the Company’s business operations for reasons including the potential quarantine of the Company’s employees or those of its supply chain partners.

Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates in our consolidated financial statements, include, but are not limited to, accounting for

acquisitions and business combinations; initial valuation and subsequent impairment testing of goodwill, other intangible assets and long lived assets; leases; fair value of financial instruments, income taxes; inventory; share-based payment arrangements, and commitment and contingencies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Recently Issued Accounting Pronouncements

Recent accounting pronouncements, other than those below, issued by the FASB, the AICPA and the SEC did not or are not believed by management to have a material effect on the Company's present or future financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires the measurement of current expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better formulate their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted ASU 2016-13 on January 1, 2020, and adoption did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820). ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. ASU 2018-13 is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Company adopted ASU 2018-13 on January 1, 2020, and the adoption did not have a material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning January 1, 2021. The Company adopted ASU 2016-13 on January 1, 2021, and adoption did not have a material impact on the Company's consolidated financial statements.

NOTE 4. ACQUISITIONS

(a) Purplemed

In December 28, 2021, the Company acquired 100% of certain assets of Purplemed Healing Center ("Purplemed") including the Medical Marijuana Dispensary License issued by the Arizona Department of Health Services ("ADHS") and the Marijuana Establishment License issued by the ADHS which collectively serve as the Purplemed license providing the ability to operate a marijuana retail sales dispensary as well as the assumption of the associated lease. The Company also acquired the right to operate an additional offsite cultivation business under the Arizona Adult Use Marijuana Act, and the option to purchase full ownership and management of Greenmed, Inc., the Greenmed license, and the Greenmed dispensary. As part of the transaction, the Company assumed the Purplemed loyalty program.

The Company analyzed the acquisition under ASU 2017-01, *Business Combinations* (Topic 805): *Clarifying the Definition of a Business*, determining Purplemed did not meet the definition of a business as Purplemed did not have inputs, processes, and outputs in place that constituted a business under Topic 805. As a result, the acquisition of Purplemed has been accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed are assigned a carrying amount based on relative fair values. The total consideration was \$15.0 million consisting of cash. The acquisition provided for indemnity for pre-closing liabilities. Accordingly, the Company recognized an indemnification asset of \$0.5 million offset by associated liabilities based on the information that was available at the date of the acquisition, which is included in the net assets acquired.

The net assets were acquired for an aggregate purchase price of \$15.0 million.

<i>(in thousands)</i>	
Consideration:	
Cash	\$ 15,000
Transaction costs	12
Fair value of consideration exchanged	<u>\$ 15,012</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Prepaid expenses and other current assets	\$ 531
Right of use asset - operating	271
Intangible asset	15,076
Other current liabilities	(531)
Deferred revenue	(109)
Lease liabilities	(226)
Total net assets acquired	<u>\$ 15,012</u>

The acquired intangible assets include a dispensary license which is treated as a definite-lived intangible asset amortized over a 15-year useful life.

(b) Harvest Health & Recreation Inc.

On October 1, 2021, (the “Closing Date”), the Company acquired 100% of the common shares of Harvest Health & Recreation, Inc. (“Harvest”) and its portion of variable interest entities in exchange for Subordinate Voting Shares of the Company (the “Transaction”).

Harvest is one of the largest multi-state vertically integrated operators in the cannabis industry in the United States operating from “seed to sale”. Harvest operates facilities or provides services to cannabis dispensaries in Arizona, California, Colorado, Florida, Maryland, Nevada, and Pennsylvania, with two provisional licenses in Massachusetts. In addition, Harvest owns CO2 extraction, distillation, purification, and manufacturing technology used to produce a line of cannabis topicals, vapes, and gems featuring cannabinoids and a hemp-derived product line sold in Colorado.

Total consideration was \$1.4 billion consisting of Trulieve Subordinate Voting Shares (“Trulieve Shares”) with a fair value of \$1.37 billion, stock options, equity classified warrants, restricted stock units and other outstanding equity instruments with a fair value of \$18.4 million, and warrant liabilities convertible into equity with a fair value of \$3.1 million at the time of the Transaction. The Company incurred \$13.0 million in transaction costs related to the acquisition of Harvest. These costs were expensed as incurred and are included in general and administrative expenses in the consolidated statements of operations and comprehensive income for the year ended December 31, 2021.

The acquisition was accounted for as a business combination in accordance with the Accounting Standards Codification (ASC) 805, *Business Combinations*. Goodwill represents the premium the Company paid over the fair value of the net tangible and intangible assets acquired. The primary reason for the acquisition was to expand the Company’s retail and cultivation footprint and gain access to new markets. The goodwill of \$662.1 million arising from the acquisition primarily consist of the synergies and economies of scale expected from combining the operations of Trulieve and Harvest including growing the Company’s customer base, acquiring assembled workforces, and expanding its presence in new and existing markets. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of goods sold, therefore goodwill is not deductible.

The following table summarizes the allocation of consideration exchanged for the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

<i>(in thousands)</i>	
Consideration:	
Trulieve Subordinated Voting Shares	\$ 1,369,024
Fair value of other equity instruments	18,394
Fair value of warrants classified as liabilities	3,103
Fair value of consideration exchanged	<u>\$ 1,390,521</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	\$ 85,318
Restricted cash	3,072
Accounts receivable	3,645
Inventories	92,537
Prepaid expenses and other current assets	100,129
Notes receivable	9,805
Property and equipment	191,801
Right of use assets - operating	73,476
Intangible assets:	
Dispensary license	946,000
Trademarks	27,430
Customer relationships	3,500
Other assets	5,289
Accounts payable and accrued liabilities	(58,887)
Income tax payable	(24,863)
Deferred revenue	(4,523)
Operating lease liabilities	(76,558)
Contingencies	(26,599)
Notes payable	(285,238)
Construction finance liabilities	(79,683)
Other long-term liabilities	(1,085)
Deferred tax liabilities	(253,986)
	<u>\$ 730,580</u>
Non-controlling interest	\$ (2,139)
Goodwill	662,080
Total net assets acquired	<u>\$ 1,390,521</u>

The acquired intangible assets include dispensary licenses which are treated as definite-lived intangible assets amortized over a 15-year useful life, tradenames amortized over a one to five year useful life, and customer relationships amortized over a one year period.

On acquisition date there was consideration in the form of 1,266,641 stock options (as converted) that had been issued before the acquisition date to employees and non-employees of Harvest. The pre-combination fair value of these awards is \$6.2 million. There was consideration in the form of 1,011,095 warrants (1,009,416 equity classified SVS warrants and 1,679 liability classified MVS warrants, as converted) that had been issued before the acquisition date to employees and non-employees of Harvest. The pre-combination fair value of these awards is \$7.7 million with \$4.6 million representing the equity classified warrants and \$3.1 million representing the liability classified warrants. There was consideration in the form of restricted stock units that had been issued before the acquisition date to non-employees of Harvest which vested for services performed pre-combination representing 18,297 SVS. The pre-combination fair value of these awards is \$0.5 million. There was additional consideration in the form of other outstanding equity instruments issued before the acquisition date to non-employees which had a pre-combination fair value of \$7.1 million.

As part of the acquisition, Harvest entered into a sale agreement to sell their Florida cannabis license for \$55.0 million where Trulieve was legally prohibited from holding this license and the sale occurred simultaneously with the Transaction. Therefore, a \$55.0 million receivable for the sale proceeds was deemed acquired and recorded.

The Company has not yet finalized their accounting for non-controlling interests on the acquired entities but has recorded preliminary entries in this area. Any subsequent adjustments would be expected to impact non-controlling interest and goodwill. This accounting will be finalized during the measurement period.

Supplemental pro forma information (unaudited)

The unaudited pro forma information for the periods set forth below gives effect to the acquisition of Harvest Health & Recreation Inc. and Keystone Shops as if the acquisitions had occurred on January 1, 2019 and PurePenn, LLC, Pioneer Leasing & Consulting, LLC and Keystone Relief Centers, LLC as if the acquisitions had occurred on January 1, 2020. PurePenn, LLC, Pioneer Leasing & Consulting, LLC and Keystone Relief Centers, LLC are not included for the year ended December 31, 2019 as the appropriate historical information was not available, making it impractical. This pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the transaction been consummated as of that time nor does it purport to be indicative of future financial operating results.

Proforma net revenues for the year ended December 31, 2021, 2020, and 2019 are \$1,232 million, \$833.6 million, and \$380.3 million, respectively. Proforma net loss and comprehensive loss attributable to common shareholders for the years ended December 31, 2021, 2020, and 2019 are \$8.0 million, \$21.1 million, and \$135.9 million, respectively.

Unaudited pro forma net income reflects the adjustment of sales between the two companies, and adjustments for alignment of significant differences in accounting principles and elections.

The consolidated statements of operations and comprehensive income includes revenue of \$115.2 million and a net loss attributable to common shareholders of \$50.7 million related to acquired operations for the year ended December 31, 2021.

(c) Keystone Shops

On July 8, 2021, the Company acquired 100% of the membership interests of Anna Holdings, LLC, the sole member of Chamounix Ventures, LLC which holds a permit to operate dispensaries under Keystone Shops (“Keystone Shops”) with locations in Philadelphia, Devon and King of Prussia, Pennsylvania. Total consideration was \$55.6 million consisting of \$20.3 million in cash, inclusive of net working capital adjustments, and 1,009,336 in Trulieve Subordinate Voting Shares (“Trulieve Shares”) with a fair value of \$35.4 million. The agreement provides for an additional \$5.0 million in consideration which is contingent on the enactment, adoption or approval of laws allowing for adult-use cannabis in Pennsylvania. No liability was recorded for this contingent consideration, as it was not estimated to be probable at the time of acquisition nor as of December 31, 2021. The acquisition was accounted for as a business combination in accordance with the Accounting Standards Codification (ASC) 805, Business Combinations. Goodwill arose because the consideration paid for the business acquisition reflected the benefit of expected revenue growth and future market development. In the fourth quarter of 2021, the Company recorded an adjustment reducing the deferred tax liability and goodwill by \$0.4 million as a result of the change in accounting principle noted in *Note 2. Basis of Presentation*.

The following table summarizes the allocation of consideration exchanged for the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

<i>(in thousands)</i>	
Consideration:	
Cash	\$ 20,251
Shares issued upon acquisition	35,385
Fair value of consideration exchanged	<u>\$ 55,636</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	\$ 500
Prepaid expenses and other current assets	240
Inventories	1,766
Property and equipment	1,144
Right of use asset - finance	1,340
Intangible assets:	
Dispensary license	27,000
Tradenname	100
Favorable leasehold interests	86
Goodwill	39,703
Other assets	40
Accounts payable and accrued liabilities	(878)
Income tax payable	(2,892)
Operating lease liabilities	(1,340)
Other long-term liabilities	(2,179)
Deferred tax liabilities	(8,994)
Total net assets acquired	<u>\$ 55,636</u>

The acquired intangible assets include a dispensary license which is treated as a definite-lived intangible asset amortized over a 15-year useful life, as well as tradenname and net favorable leasehold interests which were fully amortized in the period of acquisition due to useful life and materiality considerations.

(d) Nature's Remedy of Massachusetts, Inc.

On June 30, 2021, the Company completed an asset purchase agreement whereby Trulieve acquired a licensed, but not yet operating, adult-use dispensary location from Nature's Remedy of Massachusetts, Inc. ("Nature's Remedy"). The Company analyzed the acquisition under ASU 2017-01, *Business Combinations* (Topic 805): Clarifying the *Definition of a Business*, determining Nature's Remedy did not meet the definition of a business as Nature's Remedy did not have inputs, processes, and outputs in place that constituted a business under Topic 805. As a result, the acquisition of Nature's Remedy has been accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed are assigned a carrying amount based on relative fair values. During the third quarter of 2021, the Company recorded an adjustment of \$2.6 million increasing the cost of the acquisition due to an adjustment to the fair value of the equity consideration and updated the purchase price allocation accordingly, which updated equity consideration from contract value to fair value as of the closing date, and also updated the associated deferred tax liability. This adjustment resulted in an updated total consideration of \$16.2 million consisting of \$7.0 million in cash and 237,881 in Trulieve Shares with an updated fair value of \$9.1 million and less than \$0.1 million in transaction costs. In the fourth quarter of 2021, the Company recorded an adjustment reducing the deferred tax liability and associated intangible asset by \$4.4 million as a result of the change in accounting principle noted in *Note 2. Basis of Presentation*.

The following table summarizes the allocation of consideration exchanged for the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

<i>(in thousands)</i>	
Consideration:	
Cash	\$ 7,000
Shares issued upon acquisition	9,139
Transaction costs	23
Fair value of consideration exchanged	<u>\$ 16,162</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Prepaid expenses and other current assets	\$ 12
Property and equipment	1,006
Right of use asset - finance	799
Intangible asset	15,274
Accounts payable and accrued liabilities	(335)
Finance lease liabilities	(594)
Total net assets acquired	<u>\$ 16,162</u>

The acquired intangible asset is represented by the adult-use license and is treated as a definite-lived intangible asset amortized over a 15-year useful life.

(e) Patient Centric of Martha’s Vineyard Ltd.

On July 2, 2021, the Company acquired certain assets of Patient Centric of Martha’s Vineyard (“PCMV”) including the rights to a Provisional Marijuana Retailers License from the Massachusetts Cannabis Control Commission, the right to exercise an option held by PCMV to lease real property in Framingham, Massachusetts for use as a marijuana retailer, and necessary municipal entitlements to operate as a marijuana retailer at the property. Total consideration was 258,383 in Trulieve Shares, of which 10,879 are subject to a holdback for six months as security for any indemnity claims by the Company under the asset purchase agreement. The fair value of the equity exchange was \$10.0 million. The Company analyzed the acquisition under ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, determining PCMV did not meet the definition of a business as PCMV did not have inputs, processes, and outputs in place that constituted a business under Topic 805. As a result, the acquisition of PCMV has been accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed are assigned a carrying amount based on relative fair values. In the fourth quarter of 2021, the Company recorded an adjustment reducing the deferred tax liability and associated intangible asset by \$2.7 million as a result of the change in accounting principle noted in *Note 2. Basis of Presentation*.

<i>(in thousands)</i>	
Consideration:	
Shares issued upon acquisition	\$ 10,012
Transaction costs	18
Fair value of consideration exchanged	<u>\$ 10,030</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Right of use asset - finance	\$ 1,756
Intangible asset	10,594
Finance lease liabilities	(2,320)
Total net assets acquired	<u>\$ 10,030</u>

The acquired intangible asset is represented by the adult-use license and is treated as a definite-lived intangible asset amortized over a 15-year useful life.

(f) Solevo Wellness West Virginia, LLC

On June 8, 2021, the Company acquired 100% of the membership interests of Solevo Wellness West Virginia, LLC (“Solevo WV”) which holds three West Virginia dispensary licenses. The Company analyzed the acquisition under ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, determining Solevo WV did not meet the definition of a business as substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset. Therefore, the transaction has been accounted for as an asset acquisition. During the third quarter of 2021, the Company recorded an adjustment of \$0.1 million decreasing the cost of the

acquisition due to an adjustment to the fair value of the equity consideration, which updated equity consideration originally recorded at contract value to fair value as of the closing date, and also updated the associated deferred tax liability. This adjustment resulted in an updated total consideration of \$0.8 million consisting of \$0.2 million in cash, 11,658 in Trulieve Shares with an updated fair value of \$0.4 million, \$0.1 million in debt forgiveness and less than \$0.1 million in transaction costs. The consideration of \$0.8 million was allocated to acquired assets of \$0.8 million, which are treated as definite-lived intangible assets amortized over a 15-year useful life. In the fourth quarter of 2021, the Company recorded an adjustment reducing the deferred tax liability and associated intangible asset by \$0.2 million as a result of the change in accounting principle noted in *Note 2. Basis of Presentation*.

(g) Mountaineer Holding, LLC

On May 6, 2021, the Company acquired 100% of the membership interests of Mountaineer Holding LLC (“Mountaineer”) which holds a cultivation permit and two dispensary permits in West Virginia. The Company analyzed the acquisition under ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, determining Mountaineer did not meet the definition of a business as substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset. Therefore, the transaction has been accounted for as an asset acquisition. During the third quarter of 2021, the Company recorded an adjustment of \$0.5 million decreasing the cost of the acquisition due to an adjustment to the fair value of the equity consideration, which updated equity consideration originally recorded at contract value to fair value as of the closing date, and also updated the associated deferred tax liability. This adjustment resulted in an updated total consideration of \$5.5 million, consisting of \$3.0 million in cash and 60,342 in Trulieve Shares with a fair value of \$2.5 million. The consideration of \$5.5 million has been allocated to the \$5.5 million of acquired assets which are treated as definite-lived intangible assets and amortized over a 15-year useful life. In the fourth quarter of 2021, the Company recorded an adjustment reducing the deferred tax liability and associated intangible asset by \$1.5 million as a result of the change in accounting principle noted in *Note 2. Basis of Presentation*.

(h) PurePenn, LLC and Pioneer Leasing & Consulting, LLC

On November 12, 2020, the Company acquired 100% of the membership interests of both PurePenn, LLC, which holds a permit to cultivate and process medical marijuana in Pennsylvania, and Pioneer Leasing & Consulting, LLC (collectively “PurePenn”). The purpose of this acquisition was to operate the cultivation and manufacturing facility located in McKeesport, Pennsylvania. Trulieve acquired PurePenn for an upfront payment valued at \$48.7 million, comprised of 1,298,964 in Trulieve Shares with a fair value of \$29.7 million and \$19.0 million in cash, plus a potential earn-out payment including bonuses of up to 2,904,648 Trulieve Shares based on the achievement of certain agreed upon EBITDA milestones. The earn-out period is through the end of 2021. As of December 31, 2021, the milestones for the earn-out had been achieved and the full share amount was earned.

The acquisition was accounted for as a business combination in accordance with the Accounting Standards Codification (ASC) 805, Business Combinations. As of December 31, 2021, total transaction costs related to the acquisition were approximately \$1.8 million. Goodwill arose because the consideration paid for the business acquisition reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the costs of goods sold, therefore goodwill is not deductible.

For the three months ended June 30, 2021, the Company recorded an adjustment to the initial valuation of shares issued upon acquisition, which increased the fair value of the consideration exchanged and the estimated purchase price by \$2.7 million and increased goodwill by \$2.7 million and we recorded an adjustment to the initial valuation of contingent consideration payable in shares, which reduced contingent consideration payable in shares and the estimated purchase price by \$3.0 million and decreased goodwill by \$3.0 million. For the three months ended September 30, 2021, the Company recorded an adjustment to the deferred tax liability decreasing goodwill and the associated deferred tax liability by \$0.6 million. In the fourth quarter of 2021, the Company recorded an adjustment reducing the deferred tax liability and goodwill by \$0.9 million as a result of the change in accounting principle noted in *Note 2. Basis of Presentation*.

The following table summarizes the allocation of consideration exchanged for the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

<i>(in thousands)</i>		
Consideration:		
Cash	\$	19,000
Shares issued upon acquisition		29,711
Contingent consideration payable in shares		46,951
Fair value of consideration exchanged	\$	<u>95,662</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash	\$	563
Accounts receivable		1,300
Prepaid expenses and other current assets		376
Inventories		7,461
Property and equipment		26,233
Intangible assets:		
State license		45,310
Tradenames		3,540
Goodwill		45,431
Other assets		478
Accounts payable and accrued liabilities		(2,189)
Construction finance liabilities		(17,413)
Deferred tax liabilities		(15,428)
Total net assets acquired	\$	<u>95,662</u>

The acquired intangible assets represent include a dispensary license that is treated as a definite-lived intangible asset amortized over a 15-year useful life and two tradenames amortized over a two and three year useful life.

(i) Keystone Relief Centers, LLC

On November 12, 2020, the Company acquired 100% of the membership interests of Keystone Relief Centers, LLC (referred to herein as “Solevo Wellness”). The purpose of this acquisition was to acquire the licenses to operate three medical marijuana dispensaries in the Pittsburgh, Pennsylvania area. Trulieve acquired Solevo for an upfront purchase price of \$21.0 million, comprised of \$10.0 million in cash and 481,097 in Trulieve Shares with a fair value of \$11.0 million, plus a potential earn-out payment of up to 721,647 Trulieve Shares based on the achievement of certain agreed EBITDA milestones. The earn-out period is through the end of 2021. As of December 31, 2021, the milestones for the earn-out had been achieved and the full share amount was earned.

The acquisition was accounted for as a business combination in accordance with the Accounting Standards Codification (ASC) 805, Business Combinations, and related operating results are included in the accompanying consolidated statements of operations and comprehensive income, changes in shareholders’ equity, and statement of cash flows for periods of subsequent to the acquisition date. Total transaction costs related to the acquisition were approximately \$0.9 million. Goodwill arose because the consideration paid for the business acquisition reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the costs of goods sold, therefore goodwill is not deductible. In the fourth quarter of 2021, the Company recorded an adjustment reducing the deferred tax liability and goodwill by \$7.2 million as a result of the change in accounting principle noted in *Note 2. Basis of Presentation*.

The following table summarizes the allocation of consideration exchanged for the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

<i>(in thousands)</i>	
Consideration:	
Cash	\$ 10,000
Shares issued upon acquisition	11,004
Contingent consideration payable in shares	15,249
Net working capital adjustment	624
Fair value of consideration exchanged	<u>\$ 36,877</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	\$ 1,229
Accounts receivable	117
Prepaid expenses and other current assets	91
Inventories	2,337
Property and equipment	2,245
Right of use assets - operating	2,156
Intangible assets:	
Dispensary license	19,890
Tradename	930
Goodwill	10,828
Accounts payable and accrued liabilities	(790)
Lease liabilities	(2,156)
Total net assets acquired	<u>\$ 36,877</u>

The acquired intangible assets include a dispensary license which is treated as a definite-lived intangible asset amortized over a 15-year useful life, as well as tradename which was fully amortized in the period of acquisition due to useful life and materiality considerations.

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of December 31:

	<u>2021</u>		<u>2020</u>
	<i>(in thousands)</i>		
Trade receivables	\$ 9,363	\$	313
Less: allowance for credit losses	(509)		(5)
Accounts receivable, net	<u>\$ 8,854</u>	<u>\$</u>	<u>308</u>

The allowance for credit losses was established during the year ended December 31, 2020, and had a nominal balance as of December 31, 2020. During the year ended December 31, 2021, the Company adjusted the reserve by \$0.5 million.

NOTE 6. NOTES RECEIVABLE

Notes receivable consisted of the following as of December 31:

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Promissory note acquired from Harvest maturing in November 2025. Secured by certain assets.	\$ 8,827	\$ —
Promissory notes acquired from Harvest maturing in February 2022. Secured by certain assets.	850	—
Convertible note receivable dated November 2021 maturing in November 2024.	4,124	—
Notes receivable	13,801	—
Less: discount on notes receivable	(124)	—
Total notes receivable, net of discounts	13,677	—
Less: current portion of notes receivable	(1,530)	—
Notes receivable	<u>\$ 12,147</u>	<u>\$ —</u>

In October 2021, the Company acquired a note receivable with the Harvest acquisition. The note receivable is originally dated November 2020 maturing in November 2025. The note had an original principal balance of \$12.0 million and accrues interest at a rate of 7.5% per annum with monthly interest and principal payments of \$0.1 million.

In October 2021, the Company acquired notes receivable with the Harvest acquisition. The notes receivable are originally dated February 2021 maturing in February 2022. The notes had an original principal balance of \$0.9 million and accrue interest at a rate of 10% per annum with interest only payments due monthly. This note was repaid in full subsequent to year end and the Company received proceeds of \$0.9 million in February 2022.

As part of the acquisition of Harvest, we acquired \$9.8 million in notes receivable on October 1, 2021. There were no notes receivable outstanding prior to October 1, 2021.

See *Note 3. Acquisitions* for further details of the Harvest acquisition.

In November 2021, the Company entered into a convertible note receivable agreement for a principal amount of \$4.1 million that matures in November 2024. The note accrues interest monthly at 9.75%, and accrued interest is added to the principal balance at each quarter end. The note is convertible to equity of the holder at our option at any time prior to maturity. Further, the note was issued at a discount of 3% or \$0.1 million, which is accreted to the note receivable balance over the term of the note.

During the year ended December 31, 2021 the Company recorded interest income of \$0.2 million in other income on the consolidated statements of operations and comprehensive income. The Company had accrued interest receivable of \$0.1 million as of December 31, 2021 in prepaids and other current assets on the consolidated balance sheets. The Company had no notes receivable outstanding as of December 31, 2020.

Stated maturities of the notes receivable are as follows as of December 31, 2021:

<u>Year Ending December 31,</u>	<u>Expected principal payments</u>
	<i>(in thousands)</i>
2022	\$ 1,530
2023	733
2024	4,913
2025	6,625
2026	—
Thereafter	—
Total	13,801
Less: discount on notes receivable	(124)
Total	<u>\$ 13,677</u>

NOTE 7. INVENTORIES

Inventories are comprised of the following items as of December 31:

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Raw material		
Cannabis plants	\$ 31,279	\$ 10,661
Packaging and supplies	40,326	11,233
Total raw material	71,605	21,894
Work in process	94,249	54,780
Finished goods-unmedicated	4,824	3,908
Finished goods-medicated	41,510	17,730
Total inventories	<u>\$ 212,188</u>	<u>\$ 98,312</u>

NOTE 8. PROPERTY AND EQUIPMENT

As of December 31, 2021, and 2020, property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Land	\$ 32,904	\$ 5,878
Buildings & improvements	435,185	156,372
Construction in progress	234,198	129,588
Furniture & equipment	140,281	51,714
Vehicles	959	351
Total	843,527	343,903
Less: accumulated depreciation	(63,611)	(29,858)
Property and equipment, net	<u>\$ 779,916</u>	<u>\$ 314,045</u>

For the years ended December 31, 2021, 2020, and 2019, the Company capitalized interest of \$9.2 million, \$4.8 million, and \$0.5 million, respectively. For the years ended December 31, 2021, 2020, and 2019, the Company incurred depreciation expense of \$34.8 million, \$21.1 million, and \$9.3 million, respectively.

During the year ended December 31, 2021, the Company recorded a loss on the disposal of property and equipment of \$1.8 million consisting of \$1.6 million related to leasehold improvements and \$0.2 million related to equipment, recorded in general and administrative expenses in the consolidated statements of operations and comprehensive income. The Company had insignificant disposals of property and equipment during the years ended December 31, 2020, and 2019.

NOTE 9. INTANGIBLE ASSETS & GOODWILL

Intangibles

As of December 31, 2021, and 2020, definite-lived intangible assets consisted of the following:

	December 31,					
	2021					
<i>(in thousands)</i>	<u>Beginning balance</u>	<u>Revisions to purchase price allocation</u>	<u>Additions</u>	<u>Disposals</u>	<u>Amortization expense</u>	<u>Ending balance</u>
Licenses	\$ 83,313	\$ (5,659)	\$ 1,029,563	\$ (3,168)	\$ (22,743)	\$ 1,081,306
Internal use software	3,656	—	3,716	—	(1,117)	6,255
Tradenames	4,937	—	100	(403)	(1,940)	2,694
Customer relationship	683	—	3,500	—	(1,077)	3,106
Miscellaneous	7	—	—	—	(7)	—
Trademarks	—	—	27,516	—	(2,895)	24,621
	<u>\$ 92,596</u>	<u>\$ (5,659)</u>	<u>\$ 1,064,395</u>	<u>\$ (3,571)</u>	<u>\$ (29,779)</u>	<u>\$ 1,117,982</u>

**December 31,
2020**

<i>(in thousands)</i>	Beginning balance	Revisions to purchase price allocation	Additions	Disposals	Amortization expense	Ending balance
Licenses	\$ 24,538	\$ (1,204)	\$ 62,287	\$ —	\$ (2,308)	\$ 83,313
Internal use software	3,656	—	—	—	—	3,656
Tradenames	800	—	4,470	—	(333)	4,937
Customer relationship	883	—	—	—	(200)	683
Miscellaneous	25	—	—	—	(18)	7
Trademarks	134	—	—	—	(134)	—
	<u>\$ 30,036</u>	<u>\$ (1,204)</u>	<u>\$ 66,757</u>	<u>\$ —</u>	<u>\$ (2,993)</u>	<u>\$ 92,596</u>

Amortization expense for the years ended December 31, 2021, 2020, and 2019 was \$29.8 million, \$3.0 million, and \$1.8 million, respectively.

During the year ended December 31, 2021, we impaired intangible assets of \$3.6 million in relation to the write off of certain licenses of approximately \$3.2 million due to market changes and \$0.4 million related to the rebranding of a tradename, recorded in loss on impairment of long-lived assets on the consolidated statements of operations and comprehensive income. The Company had no impairments of intangible assets during the years ended December 31, 2020, or 2019.

The following table outlines the estimated future annual amortization expense related to intangible assets as of December 31, 2021:

Year Ending December 31,	Estimated amortization
	<i>(in thousands)</i>
2022	\$ 85,655
2023	80,713
2024	78,971
2025	76,944
2026	75,447
Thereafter	720,252
	<u>\$ 1,117,982</u>

Goodwill

Goodwill arose from the acquisition of Harvest Health & Recreations Inc., Keystone Shops, PurePenn LLC, Pioneer Leasing & Consulting LLC, and Solevo Wellness, see *Note 4. Acquisitions*.

Goodwill consisted of the following:

<i>(in thousands)</i>	
As of December 31, 2019	\$ 7,316
Acquisition of PurePenn, LLC and Pioneer Leasing & Consulting, LLC	47,311
Acquisition of Solevo Wellness	19,473
Revisions of purchase price allocations of PurePenn and Solevo Wellness	(6,924)
As of December 31, 2020	\$ 67,176
Measurement period adjustments and revisions of purchase price allocation of Solevo Wellness	(2,638)
Measurement period adjustments and revisions of purchase price allocation of PurePenn	(963)
Acquisition of Keystone Shops	40,072
Revisions of purchase price allocation of Keystone Shops	(369)
Acquisition of Harvest Health & Recreation, Inc.	662,080
As of December 31, 2021	<u>\$ 765,358</u>

NOTE 10. NOTES PAYABLE

As of December 31, 2021, and 2020, notes payable consisted of the following:

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Promissory notes dated April to July 2017, maturing between April and July 2022. Monthly interest payments due at 12% per annum. Principal balance due at maturity. The note was fully paid in the fourth quarter of 2021.	\$ —	\$ 4,000
Promissory note dated December 2017, maturing in December 2021. Monthly interest payments due at 12% per annum. Secured by property. Principal balance due at maturity. The note was fully paid in the fourth quarter of 2021.	—	2,000
Promissory notes dated October 1, 2021, maturing in October 2022. Monthly interest payments due of 4.75%. Secured by mortgaged property with a \$6 million book value.	6,156	—
Promissory note dated October 2019, maturing in October 2024. Monthly interest payments due of 5.5%. Principal balance due at maturity.	829	—
Promissory note acquired in Harvest acquisition dated August 2018, maturing in August 2024. Monthly interest payments due of 2%. Secured by certain assets.	1,022	—
Promissory note acquired in Harvest acquisition dated January 2020, maturing in May 2023. Quarterly interest payments due of 2%.	425	—
Promissory note acquired in Harvest acquisition dated January 2020, maturing in January 2023. Monthly interest payments due at 2%.	65	—
Promissory note dated July 2018, maturing in July 2023. Monthly interest payments due at 4% per annum. Secured by certain assets.	1,113	—
Promissory note acquired in Harvest acquisition dated February 2020, maturing in February 2023. Monthly interest payments due at 5.5%.	4,699	—
Promissory note acquired in Harvest acquisition dated April 2021, maturing in April 2026. Principal due at maturity. Secured by equipment.	60	—
Promissory notes of consolidated variable-interest entities acquired in Harvest Acquisition. Maturing December 2022 and 2029, interest ranging from 5.25% to 8.25%. Secured by real-estate. In the first quarter of 2022 these notes were fully paid.	2,231	—
Total notes payable	<u>16,600</u>	<u>6,000</u>
Current portion	(10,144)	(2,000)
Less: debt discount, current	92	—
Less: Current portion, net	<u>(10,052)</u>	<u>(2,000)</u>
Notes payable	<u>\$ 6,456</u>	<u>\$ 4,000</u>

As of December 31, 2021, stated maturities of notes payables are as follows:

Year Ending December 31,	<i>(in thousands)</i>
2022	\$ 10,144
2023	4,711
2024	665
2025	14
2026	5
Thereafter	1,061
Total	\$ 16,600

NOTE 11. NOTES PAYABLE RELATED PARTY

In February 2019, the Company entered into a 24-month unsecured loan with an 8% annual interest rate with Benjamin Atkins, a former director and shareholder for \$0.3 million. The loan was issued in March 2019. The Company determined that the stated interest rate was below market rates and recorded an insignificant debt discount using an annual discount interest rate of 12%.

In May 2018, the Company entered into two separate unsecured promissory notes (the “Traunch Four Note” and the “Rivers Note”) for a total of \$12.0 million. The Traunch Four Note is held by Traunch Four, LLC, an entity whose direct and indirect owners include Kim Rivers, the Chief Executive Officer and Chair of the Board, as well as Thad Beshears, Richard May, George Hackney, all of whom are directors or former directors of Trulieve, and certain of Richard May’s family members. The Rivers Note is held by Kim Rivers. Each promissory note has a 24-month maturity and 12% annual interest rate. The two unsecured promissory notes were amended in December 2019 to extend the maturity one year to May 2021. The two unsecured promissory notes were further amended in May 2021 to extend the maturity date to November 2021.

As of December 31, 2020, the Company had outstanding current notes payable due to related parties of \$12.0 million. During the year end December 31, 2021, all outstanding related party notes were fully paid with zero balance outstanding as of December 31, 2021. During the years ended December 31, 2021, 2020, and 2019, the Company incurred interest expense on related party debt of \$1.1 million, \$1.6 million, and \$1.7 million, respectively.

NOTE 12. PRIVATE PLACEMENT NOTES

2024 Notes

On June 18, 2019, the Company completed a private placement financing comprising 5-year senior secured promissory notes (the “June Notes”) with a face value of \$70.0 million. The June Notes accrue interest at an annual rate of 9.75%, payable semi-annually, in equal installments, in arrears in June and December of each year, commencing in December 2019. The holders of the June Notes also received warrants to purchase 1,470,000 Subordinate Voting Shares at an exercise price of \$13.47 (the “June Warrants”), which can be exercised for three years after the closing.

The fair value of the June Notes was determined to be \$63.9 million using an effective interest rate of 13.32%, which the Company estimates would have been the coupon rate required to issue the notes had the financing not included the June Warrants. The fair value of the June Warrants was determined to be \$4.7 million using the Black-Scholes option pricing model and the following assumptions: Share Price: C\$14.48; Exercise Price: C\$17.25; Expected Life: three years; Annualized Volatility: 49.96%; Dividend yield: 0%; Discount Rate: 1.92%; C\$ Exchange Rate: 1.34. Issuance costs totaling \$3.1 million were allocated between the June Notes and the June Warrants based on their relative fair values with \$2.9 million allocated to the June Notes and \$0.2 million expensed as incurred.

The June Notes will accrete from their carrying value on June 18, 2019, of \$61.0 million to \$70.0 million at maturity in five years using an effective interest rate of 13.32%. For the years ended December 31, 2021, 2020, and 2019 accretion expense of \$1.7 million, \$1.5 million and \$0.7 million respectively, was included in interest expense in the consolidated statements of operations and comprehensive income.

On November 7, 2019, the Company completed a prospectus offering private placement of 60,000 units of the Company (the “November Units”), comprised of an aggregate principal amount of \$60.0 million of 9.75% senior secured notes of the Company maturing in 2024 (the “November Notes”) and an aggregate amount of 1,560,000 Subordinate Voting Share warrants of the Company (each individual warrant being a “November Warrant”) at a price

of \$980 per Unit for gross proceeds of \$61.1 million. Each Unit was comprised of one Note issued in denominations of \$1,000 and 26 Warrants.

The fair value of the November Notes was determined to be \$54.5 million using an effective interest rate of 13.43%, which the Company estimates would have been the coupon rate required to issue the notes had the financing not included the November Warrants. The fair value of the November Warrants was determined to be \$4.4 million using the Black-Scholes option pricing model and the following assumptions: Share Price: C\$14.29; Exercise Price: C\$17.25; Expected Life: 2.6 years; Annualized Volatility: 48.57%; Dividend yield: 0%; Discount Rate: 1.92%; C\$ Exchange Rate: 1.32. Issuance costs totaling \$2.1 million were allocated between the November Notes and the November Warrants based on their relative fair values with \$2.0 million allocated to the November Notes and \$0.2 million expensed in the consolidated statements of operations and comprehensive income.

The November Notes will accrete from their carrying value on November 7, 2019, of \$52.5 million to \$60.0 million at maturity in 4.6 years using an effective interest rate of 13.43%. For the years ended December 31, 2021, 2020 and 2019, the Company incurred accretion expense of \$1.5 million, \$1.3 million, and \$0.1 million which is included in interest expense in the consolidated statements of operations and comprehensive income.

Because of the Canadian denominated exercise price, the June Warrants and November Warrants did not qualify to be classified within equity and were therefore classified as derivative liabilities at fair value with changes in fair value charged or credited to earnings in the consolidated statements of operations and comprehensive income prior to December 10, 2020.

On December 10, 2020, the Company entered into a Supplemental Warrant Indenture with Odyssey Trust Company pursuant to which it amended the terms of the June Warrants and November Warrants (the "Public Warrants") to convert the exercise price of the Public Warrants to \$13.47 per share, the U.S. dollar equivalent of the Canadian dollar exercise price of the Public Warrants of C\$17.25 at the date of closing. As of December 10, 2020, the June Warrants converted to equity as per ASC 815-40, at a fair value of \$25.5 million and the November Warrants converted at a fair value of \$27.1 million, which is included in additional paid-in-capital on the consolidated statements of changes in shareholders' equity.

2026 Notes

On October 6, 2021, the Company closed its private placement of 8% Senior Secured Notes (the "2026 Notes") for aggregate gross proceeds of \$350.0 million and net proceeds of \$342.6 million. The 2026 Notes were issued at 100% face value, bear an interest rate of 8% per annum payable semi-annually in equal installments until the maturity date, unless earlier redeemed or repurchased. The 2026 Notes mature on October 6, 2026, and may be redeemed in whole or in part, at the Company's option, at any time, on or after October 6, 2023, at the application redemption price set forth in the Indenture. The Company used a portion of the net proceeds to redeem certain outstanding indebtedness of Harvest and intends to use the remaining net proceeds for capital expenditures and other general corporate purposes. For the year ended December 31, 2021, the Company incurred accretion expense of \$0.3 million.

Scheduled annual maturities of the principal portion of private placement notes outstanding as of December 31, 2021, are as follows:

Year Ending December 31,	<i>(in thousands)</i>
2022	\$ —
2023	—
2024	130,000
2025	—
2026	350,000
Thereafter	—
Total private placement notes	480,000
Less: Unamortized debt issuance costs	(17,071)
Private placement notes, net	\$ 462,929

NOTE 13. LEASES

The Company leases real estate used for dispensaries, production plants, and corporate offices. Lease terms for real estate generally range from five to ten years. Most leases include options to renew for varying terms at the Company's sole discretion. Other leased assets include passenger vehicles, trucks, and equipment. Lease terms for these assets

generally range from three to five years. Lease right-of-use assets and liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date.

Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease agreements for some locations provide for rent escalations and renewal options. Certain real estate leases require payment for taxes, insurance and maintenance which are considered non-lease components. The Company accounts for real estate leases and the related fixed non-lease components together as a single component.

The following table provides the components of lease cost recognized in the consolidated statements of operations and comprehensive income for the year ended December 31, 2021, 2020, and 2019.

Statement of operations and comprehensive income location		Year Ended December 31,		
		2021	2020	2019
<i>(in thousands)</i>				
Operating lease cost	Cost of goods sold, sales and marketing, general and administrative	\$ 11,574	\$ 5,700	\$ 5,542
Finance lease cost:				
Amortization of lease assets	Cost of goods sold, sales and marketing, general and administrative	7,866	4,956	1,984
Interest on lease liabilities	Interest expense	4,574	2,133	960
Finance lease cost		12,440	7,089	2,944
Variable lease cost	Cost of goods sold, sales and marketing, general and administrative	6,098	222	192
Short term lease expense	Cost of goods sold, sales and marketing, general and administrative	334	—	—
Total lease cost		\$ 30,446	\$ 13,011	\$ 8,678

Short term lease expense for the year ended December 31, 2020, and 2019, was nominal. During the year ended December 31, 2021, we earned a nominal amount of sublease income which is recorded in other income on the consolidated statements of operations and comprehensive income. During the year ended December 31, 2021, the Company terminated \$1.0 million in leases.

Other information related to operating and finance leases is as follows:

	Year Ended December 31,	
	2021	2020
<i>(in thousands)</i>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	4,164	4,764
Operating cash flows from finance leases	4,574	2,485
Financing cash flows from finance leases	4,434	4,951
Lease assets obtained in exchange for new lease liabilities:		
Operating leases	102,922	12,206
Finance leases	37,821	23,220
Weighted average discount rate:		
Operating leases	9.69%	8.64%
Finance leases	8.68%	8.36%
Weighted average remaining lease term (in years):		
Operating leases	10.09	7.49
Finance leases	8.16	8.51

Future lease payments under our non-cancellable leases as of December 31, 2021, are as follows:

Year Ending December 31,	Operating leases	Finance leases
	<i>(in thousands)</i>	
2022	\$ 21,826	\$ 12,102
2023	21,371	15,039
2024	20,896	11,242
2025	20,536	10,840
2026	19,974	10,394
Thereafter	110,758	42,311
Total undiscounted lease liabilities	215,361	101,928
Less: Interest	(83,391)	(30,499)
Total present value of minimum lease payments	131,970	71,429
Lease liabilities- current portion	9,840	6,185
Lease liabilities	\$ 122,130	\$ 65,244

NOTE 14. CONSTRUCTION FINANCE LIABILITIES

Holyoke

In July 2019, the Company sold property it had recently acquired in Massachusetts for \$3.5 million, which was the cost to the Company. In connection with the sale of this location, the Company agreed to lease the location back for cultivation. This transaction was determined to be a finance lease, and therefore did not meet the definition of a sale because control was never transferred to the buyer-lessor. The transaction was treated as a failed sale-leaseback financing arrangement.

Included in the agreement, the Company completed the tenant improvements related to the property, for which the landlord has provided a tenant improvement allowance (“TI Allowance”) for \$40.0 million. As of December 31, 2021, and December 31, 2020, \$40.0 million and \$40.0 million, respectively, of the TI Allowance has been provided. The initial term of the agreement is ten years, with two five-year options to renew. The initial payments are equal to 11% of the sum of the purchase price for the property and will increase when a draw is made on the TI Allowance. In addition, a 3% increase in payments will be applied annually after the first year. As of December 31, 2021, and 2020, the total finance liability associated with this transaction is \$44.6 million and \$43.9 million, respectively.

Ben Bostic

In October 2019, the Company sold property in Florida in exchange for cash of \$17.0 million. Concurrent with the closing of the purchase, the buyer entered into a lease agreement with the Company, for continued operation as a licensed medical cannabis cultivation facility. Control was never transferred to the buyer-lessor because the transaction was determined to be a finance lease and did not meet the requirements of a sale. The transaction was treated as a failed sale-leaseback financing arrangement.

The initial term of the agreement is ten years, with two five-year options to renew. The initial annualized payments are equal to 11% of the purchase price for the property. A 3% increase in payments will be applied annually after the first year. As of December 31, 2021, and 2020, the total finance liability associated with this transaction is \$17.4 million and \$17.2 million, respectively.

McKeesport

In October 2019, prior to acquisition by the Company, PurePenn, LLC (“PurePenn”) sold their cannabis cultivation facility in Pennsylvania for \$5.0 million. Simultaneously with the closing of the sale, PurePenn agreed to lease the cultivation facility back. The transaction was treated as a failed sale-leaseback financing arrangement.

The initial term of the lease is 15 years, with two five-year options to renew. The landlord has agreed to provide a TI Allowance of \$21.0 million as an additional component of base rent. Payments are made based on one twelfth (1/12) of the TI allowance dispersed with 12.75% due for the first \$5.0 million, 13.25% for \$5.0 million to \$15.0 million and 13.50% for \$15.0 to \$21.0 million. In 2021, the Company entered into an amendment with the landlord to increase the tenant improvement allowance by an additional \$15.5 million for a total of \$36.5 million at a rate of 10.75% on

the additional allowance in excess of \$21.0 million. As of December 31, 2021, \$29.5 million of the TI allowance has been provided.

Alachua

In October 2021, in connection with the acquisition of Harvest, the Company acquired a transaction in which Harvest sold a licensed cultivation and processing facility and simultaneously with the closing of the sale, agreed to lease the facility back. The transaction was treated as a failed sale-leaseback financing arrangement.

The initial term of the lease is 20 years, with two five-year options to renew. The landlord has agreed to provide a TI Allowance of \$17.85 million as an additional component of base rent. As of December 31, 2021, \$15.3 million of the TI allowance has been provided.

In the first quarter of 2022, the Company made the decision to discontinue the use of this facility. The Company is evaluating the impacts of this decision and remains in compliance with the associated lease obligation.

Hancock

In October 2021, in connection with the acquisition of Harvest, the Company acquired a transaction in which Harvest sold a licensed cultivation and processing facility and simultaneously with the closing of the sale, agreed to lease the facility back. The transaction was treated as a failed sale-leaseback financing arrangement.

The initial term of the lease is ten years with two options to extend the term the first providing a ten-year renewal option and the second providing a five year renewal option. The landlord has agreed to provide a TI Allowance of \$12.9 million as an additional component of base rent. As of December 31, 2021, \$5.7 million of the TI allowance has been provided.

Under the failed-sale-leaseback accounting model, the Company is deemed to own this real estate and will reflect the properties on our consolidated balance sheet and depreciate over the assets' remaining useful life.

Future minimum lease payments for the construction finance liabilities as of December 31, 2021, are as follows:

Year Ending December 31,	<i>(in thousands)</i>
2022	\$ 22,463
2023	23,406
2024	23,737
2025	24,176
2026	24,595
Thereafter	427,747
Total future payments	546,124
Less: Interest	(369,935)
Total present value of minimum payments	176,189
Construction finance liabilities - current portion	991
Construction finance liabilities	<u>\$ 175,198</u>

NOTE 15. SHARE CAPITAL

The authorized share capital of the Company is comprised of the following:

(i) Unlimited number of Subordinate Voting Shares

Holders of the Subordinate Voting Shares are entitled to notice of and to attend any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. At each such meeting holders of Subordinate Voting Shares shall be entitled to one vote in respect of each Subordinate Voting Share held. Holders of Subordinate Voting Shares are entitled to receive as and when declared by the directors, dividends in cash or property of the Company. No dividend will be declared or paid on the Subordinate Voting Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on an as-converted to Subordinate Voting Share basis) on the Multiple Voting Shares and Super Voting Shares.

(ii) Unlimited number of Multiple Voting Shares

Holders of Multiple Voting shares are entitled to notice of and to attend any meetings of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company have the right to vote. At each such meeting, holders of Multiple Voting Shares are entitled to one vote in respect of each Subordinate Voting Share into which such Multiple Voting Share could ultimately then be converted (initially, 100 votes per Multiple Voting Share). The initial "Conversion Ratio" for Multiple Voting Shares is 100 Subordinate Voting shares for each Multiple Voting Share, subject to adjustment in certain event. Holders of Multiple Voting Shares have the right to receive dividends, out of any cash or other assets legally available therefor, pari passu (on an as converted basis, assuming conversion of all Multiple Voting Shares into Subordinate Voting Shares at the Conversion Ratio) as to dividends and any declaration or payment of any dividend on the Subordinate Voting Shares.

No dividend may be declared or paid on the Multiple Voting Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on an as-converted to Subordinate Voting Share basis) on the Subordinate Voting Shares and Super Voting Shares.

(iii) Unlimited number of Super Voting Shares

Holders of Super Voting Shares are entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. At each such meeting, holders of Super Voting Shares are be entitled to two votes in respect of each Subordinate Voting Share into which such Super Voting Share could ultimately then be converted (initially, 200 votes per Super Voting Share). Holders of Super Voting Shares have the right to receive dividends, out of any cash or other assets legally available therefor, pari passu (on an as converted to Subordinated Voting Share basis) as to dividends and any declaration or payment of any dividend on the Subordinate Voting Shares. No dividend is to be declared or paid on the Super Voting Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on an as-converted to Subordinate Voting Share basis) on the Subordinate Voting Shares and Multiple Voting Shares. The initial "Conversion Ratio" for the Super Voting Shares is one Multiple Voting Share for each Super Voting Share, subject to adjustment in certain events.

Warrants

Liability warrants

	Number of warrants	Weighted average exercise price (\$CAD)	Weighted average remaining contractual life (Yrs)
Outstanding and exercisable at December 31, 2018	214,178	6.00	1.66
Granted	—	—	—
Exercised	(214,178)	6.00	—
Outstanding and exercisable at December 31, 2019	—	—	—
Granted	—	—	—
Exercised	—	—	—
Outstanding and exercisable at December 31, 2020	—	—	—
Granted	1,679	1,125	1.31
Exercised	—	—	—
Outstanding and exercisable at December 31, 2021	<u>1,679</u>	<u>1,125</u>	<u>1.31</u>

In October 2021 we acquired 1,679 warrants in connection with the acquisition of Harvest ("Harvest liability warrants"). See *Note 4. Acquisitions* for further details. Each acquired warrant is exercisable into one Multiple Voting Share. Changes in fair value are recognized as a component of other (expense) income in the consolidated statements of operations and comprehensive income as change in fair value of derivative liabilities - warrants.

Equity warrants

In connection with the Harvest acquisition, we acquired certain equity classified warrants ("equity warrants"). The warrants range in exercise price from \$23.76 to \$145.24 and expire at various dates from June 2022 through December 2025. The warrants are exercisable into one Subordinate Voting Share. As of December 31, 2021, there were 1,009,416 acquired equity warrants outstanding. Each acquired equity warrant is exercisable into one Subordinate Voting Share.

As of December 31, 2021, and 2020, there were 2,460,367 and 3,029,900 Public Warrants outstanding. See *Note 12. Private Placement Notes* for further details on warrants issued in connection with private placement debt in 2019.

April Offering

On April 12, 2021, the Company concluded the underwritten offer and sale of 5,750,000 Subordinate Voting Shares in the United States and Canada at a public offering price of \$39.63. After paying the underwriters a commission of approximately \$9.1 million, fees of \$0.2 million and issuance costs of \$1.2 million, the Company received aggregate consideration of approximately \$217.9 million.

Prospectus Offering

On September 21, 2020, the Company concluded the offer and sale of 4,715,000 Subordinate Voting Shares pursuant to an agreement with Canaccord Genuity Corp. (the "Underwriter") at a price of \$18.56 per share. After paying the Underwriter a commission of approximately \$4.1 million and issuance costs of \$0.1 million, the Company received aggregate consideration of approximately \$83.2 million.

NOTE 16. SHARE BASED COMPENSATION

Options

The Company's 2021 Omnibus Incentive Plan (the "2021 Plan") was adopted at the annual meeting of shareholders. The 2021 Plan reserves 4,000,000 Subordinate Voting Shares for issuance thereunder and replaced the Schyan Exploration Inc. Stock Option Plan (the "Prior Plan"). Awards previously granted under the Prior Plan, including equity awards granted in the first quarter of 2021 for performance in 2020, remain subject to the terms of the Prior Plan. No further grants of awards shall be made under the Prior Plan. The Prior Plan is administered by the Board of Directors of the Company and the 2021 Plan is administered by the Compensation Committee.

In determining the amount of share-based compensation related to options issued during the year ended December 31, 2021, and 2020, the Company used the Black-Scholes pricing model to establish the fair value of the options granted with the following assumptions:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Fair value at grant date	\$1.44 - \$14.13	\$3.11 - \$3.26
Stock price at grant date	\$25.80 - \$33.42	\$11.52 - \$12.50
Exercise price at grant date	\$9.93 - \$78.76	\$11.52 - \$12.50
Expected life in years	3.2 - 6.2	1.58 - 2.0
Expected volatility	49.64% - 56.04%	49.10% - 50.15%
Expected annual rate of dividends	0%	0%
Risk free annual interest rate	0.16% - 1.15%	1.40% - 1.58%

The expected volatility was estimated by using the historical volatility of the Company. In cases where there is insufficient trading history, the expected volatility is estimated using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that options granted are expected to be outstanding and is computed using the simplified method. The risk-free rate was based on the United States bond yield rate at the time of grant of the award. Expected annual rate of dividends is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future.

On January 3, 2020, under the Prior Plan, the Board awarded options to purchase shares to directors, officers, and key employees of the Company. The January 3, 2020 options generally vest over a two to three year period. For founding members of the Board of Directors, the options were fully vested on the date of grant.

On January 4, 2021, under the Prior Plan, the Board awarded options to purchase shares to directors, officers, and key employees of the Company. The January 4, 2021 options generally vest over a two to three year period.

On September 29, 2021, under the 2021 Plan, the Board awarded options to purchase shares to officers and other select employees of the Company. The September 29, 2021 options vest over a three year period.

On October 1, 2021, the Company acquired Harvest which included consideration in the form of 1,266,641 stock options (as converted) that had been issued before the acquisition date to employees and non-employees of Harvest. The post-combination options vest over a one to three year period.

On October 26, 2021, under the 2021 Plan, the Board awarded options to purchase shares to officers and other select employees of the Company. The options generally vest over a two to three year period.

For the year ended December 31, 2021, the Company recorded share-based compensation in the amount of \$7.5 million related to stock options. This is recognized as \$0.7 million cost of goods sold, net, \$5.7 million general and administrative and \$1.1 million sales and marketing in the consolidated statements of operations and comprehensive income. As of December 31, 2021, there was approximately \$8.3 million of total unrecognized compensation cost related to nonvested stock option arrangements. That cost is expected to be recognized over a weighted-average service period of 0.91 years.

For the year ended December 31, 2020, the Company recorded share-based compensation in the amount of \$2.8 million related to stock options. This is recognized as \$0.2 million cost of goods sold, net, \$2.1 million general and administrative and \$0.5 million sales and marketing in the consolidated statements of operations and comprehensive income.

The number and weighted-average exercise prices and remaining contractual life of options at December 31, 2020, and December 31, 2021, were as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual life (Yrs.)	Aggregate intrinsic value
Outstanding at January 1, 2020	—	\$ —	—	—
Granted	1,252,403	11.70		
Exercised	(9,180)	11.52		
Forfeited	(113,444)	11.52		
Outstanding, December 31, 2020	<u>1,129,779</u>	<u>\$ 11.72</u>	<u>4.01</u>	<u>\$ 19.90</u>
Exercisable, December 31, 2020	697,944	\$ 11.70	4.01	\$ 19.92
Outstanding at January 1, 2021	1,129,779	\$ 11.72		
Granted	2,168,528	36.86		
Exercised	(118,692)	12.46		
Forfeited	(205,720)	46.64		
Outstanding, December 31, 2021	<u>2,973,895</u>	<u>\$ 27.61</u>	<u>6.26</u>	<u>\$ —</u>
Exercisable, December 31, 2021	1,503,051	\$ 17.27	3.77	\$ 8.94

Restricted Stock Units

Restricted stock units ("RSUs") represent a right to receive a single Subordinate Voting Share that is both non-transferable and forfeitable unless and until certain conditions are satisfied. RSUs vest ratably over a two to three year period subject to continued employment through each anniversary. The fair value of RSUs is determined on the grant date and is amortized over the vesting period on a straight-line basis.

On September 29, 2021, under the 2021 Plan, the Board awarded RSUs to officers, and other select employees of the Company, which vest over a two to three year period. On October 26, 2021, under the 2021 Plan, the Board awarded RSUs to certain employees of the Company. The RSUs vest over the same terms as those issued on September 29, 2021.

In September 2021, the Board of Directors approved grants of RSUs for two executive officers as replacement awards for cancelled warrants, which vested immediately. The previously held 3,572,514 warrants were cancelled on September 15, 2021 with the new RSUs granted on September 15, 2021 as a replacement of the previously held warrants. The two officers were awarded a total premium of \$3.1 million, allocated between the two officers, to incentivize the cancellation and replacement. This premium payment was recorded to general and administrative expenses in the consolidated statements of operations and comprehensive income. No share-based compensation expense was recorded related to the cancellation and replacement of the previous warrants with the new RSUs during the year ended December 31, 2021.

	Number of restricted stock units	Weighted average grant price
Unvested balance as of January 1, 2021	—	—
Granted	3,255,424	25.45
Vested	(2,920,336)	25.29
Forfeited	(2,660)	26.88
Unvested balance as of December 31, 2021	<u>332,428</u>	<u>26.86</u>

During the year ended December 31, 2021, the Company recorded share-based compensation in the amount of \$1.8 million related to RSUs. This is recognized as \$0.3 million cost of goods sold, net, \$1.2 million general and administrative and \$0.3 million sales and marketing in the statements of operations and comprehensive income.

As of December 31, 2021, there was approximately \$7.6 million of total unrecognized compensation cost related to nonvested restricted stock units. That cost is expected to be recognized over a weighted-average service period of 0.86 years.

Warrants

During the year ended December 31, 2018, the Company issued 8,784,872 warrants to certain employees and directors of the Company for past services provided. The warrants had no vesting conditions and are exercisable at any time for three years after the issuance, subject to certain lock-up provisions: (i) the warrants may not be exercised for 18 months following the Issue Date; (ii) 50% of the warrants may be exercised between months 19-24 following the Issue Date; and (iii) the remaining 50% of the warrants may be exercised at any time thereafter until expiration. The warrants are exchangeable into Subordinate Voting Shares. For the years ended December 31, 2021, 2020, and 2019, no warrants related to employee compensation were issued.

The following table summarizes the warrants issued and outstanding to certain employees and directors of the Company as of December 31, 2021, 2020, and 2019, and the activity for the years then ended.

	Number of warrants	Weighted average exercise price (\$CAD)	Weighted average remaining contractual life (Yrs)
Outstanding as of December 31, 2018	8,784,872	6.00	2.72
Granted	—	—	—
Exercised	—	—	—
Exchanged for cashless exercise	—	—	—
Outstanding as of December 31, 2019	<u>8,784,872</u>	<u>6.00</u>	<u>1.72</u>
Granted	—	—	—
Exercised	2,723,311	—	—
Exchanged for cashless exercise	—	—	—
Cancelled	—	—	—
Outstanding as of December 31, 2020	<u>6,061,561</u>	<u>6.00</u>	<u>0.72</u>
Exercised	2,075,990	—	—
Exchanged for cashless exercise	413,057	—	—
Cancelled	3,572,514	—	—
Outstanding as of December 31, 2021	<u>—</u>	<u>—</u>	<u>—</u>

NOTE 17. EARNINGS PER SHARE

The following is a reconciliation for the calculation of basic and diluted earnings per share for the years ended December 31, 2021, 2020, and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<i>(in thousands, except share and per share data)</i>		
Net income and comprehensive income	\$ 17,445	\$ 62,998	\$ 53,095
Less: Net loss and comprehensive loss attributed to non-controlling interest	(587)	—	—
Net income and comprehensive income attributed to common shareholders	\$ 18,032	\$ 62,998	\$ 53,095
Weighted average number of common shares outstanding	139,366,940	113,572,379	110,206,103
Dilutive effect of options, warrants, and RSUs	7,390,346	4,753,345	5,111,839
Diluted weighted average number of common shares outstanding	146,757,286	118,325,724	115,317,942
Basic earnings per share	\$ 0.13	\$ 0.55	\$ 0.48
Diluted earnings per share	\$ 0.12	\$ 0.53	\$ 0.46

For the year ended December 31, 2021, and 2020, the Company excluded 1,694,424 and zero options, respectively, from the dilutive calculation as they would have been anti-dilutive. There were no options outstanding as of December 31, 2019. For the year ended December 31, 2021, 2020, and 2019 the Company excluded 409,811, 544,998, and zero warrants, respectively, as they would have been anti-dilutive.

NOTE 18. INCOME TAXES

The Company is treated as a United States corporation for US federal income tax purposes under IRC Section 7874 and is subject to US federal income tax on its worldwide income. However, for Canadian tax purposes, the Company, regardless of any application of IRC Section 7874, is treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the “ITA”) for Canadian income tax purposes. As a result, the Corporation is subject to taxation both in Canada and the United States.

The components of the income tax provision include:

	Year Ended December 31,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<i>(in thousands)</i>		
Current:			
Federal	\$ 142,203	\$ 82,238	\$ 41,847
State	29,924	17,100	9,647
Foreign	—	—	—
Total current tax expense	172,127	99,338	51,494
Deferred:			
Federal	(21,755)	(3,694)	(738)
State	(4,507)	(1,193)	(170)
Foreign	—	—	—
Total deferred tax expense	(26,262)	(4,887)	(908)
Change in valuation allowance	196	—	—
Total income tax expense	\$ 146,061	\$ 94,451	\$ 50,586

A reconciliation of the Federal statutory income tax rate percentage to the effective tax rate is as follows:

	Year Ended December 31,		
	2021	2020	2019
	<i>(in thousands)</i>		
Income before income taxes	\$ 163,506	\$ 157,449	\$ 103,681
Federal statutory rate	21.0%	21.0%	21.0%
Theoretical tax expense	34,336	33,064	21,773
State taxes	25,417	12,407	9,477
Other	681	(1,666)	1,310
Tax effect of non-deductible expenses:			
Section 280E permanent differences	85,627	50,646	18,026
	111,725	61,387	28,813
Tax expense	<u>\$ 146,061</u>	<u>\$ 94,451</u>	<u>\$ 50,586</u>

Deferred income taxes consist of the following as of December 31, 2021, and 2020, and 2019:

	Year Ended December 31,		
	2021	2020	2019
	<i>(in thousands)</i>		
Deferred tax assets			
Lease liabilities	\$ 10,752	\$ 1,219	\$ 1,020
Finance liabilities	15,715	—	—
Net operating losses	7,845	—	—
Other deferred tax assets	1,567	7,025	969
Deferred tax liabilities			
Right of use assets	(10,285)	(1,210)	(1,099)
Intangible assets	(261,673)	(18,999)	(6,144)
Property and equipment	(8,406)	(3,482)	(233)
Lease payments	—	—	—
Valuation allowance	(6,826)	—	—
Net deferred tax liability	<u>\$ (251,311)</u>	<u>\$ (15,447)</u>	<u>\$ (5,487)</u>

Realization of deferred tax assets associated with the net operating loss carryforwards is dependent upon generating sufficient taxable income prior to their expiration. A valuation allowance to reflect management's estimate of the net operating loss carryforwards that may expire prior to their utilization has been recorded at December 31, 2021.

As of December 31, 2021, the Company has \$1.4 million of non-capital Canadian losses which expire in 2031, \$252.8 million of state net operating losses which expire in 2023-2041, and \$271.7 million of US federal net operating losses which have an indefinite carryforward period. The Company determined a valuation allowance was applicable to \$1.4 million of non-Capital Canadian losses and \$138.9 million of state net operating losses. The Company also determined that it is more likely than not that the benefit from \$268.9 million of US federal net operating losses and \$106.2 million of state net operating losses will not be realized and therefore this amount has not been recorded.

As the Company operates in the cannabis industry, the Company is subject to the limits of Internal Revenue Code ("IRC") Section 280E for US federal income tax purposes as well as state income tax purposes for all states except for California and Colorado. Under IRC Section 280E, the Company is only allowed to deduct expenses directly related to costs of goods sold. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

The Company recognizes benefits from uncertain tax positions based on the cumulative probability method whereby the largest benefit with a cumulative probability of greater than 50% is recorded. An uncertain tax position is not recognized if it has less than a 50% likelihood of being sustained. As of December 31, 2021, and December 31, 2020, the Company recorded an uncertain tax liability of \$6.7 million and \$3.9 million, respectively, inclusive of interest and penalties. Additionally, there are unrecognized deferred tax benefits of \$44.9 million as of December 31, 2021, and \$3.8 million as of December 31, 2020. The Company does not reasonably expect the unrecognized tax benefits will materially increase or decrease within the next 12 months.

During 2021, the Company recorded interest of \$0.3 million and penalties of \$0.3 million on uncertain liability assumed in acquisitions and recorded \$0.6 million of interest in the consolidated statements of operations and comprehensive income. As of December 31, 2021, all tax filings remain open for assessment.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended December 31,	
	2021	2020
Beginning balance	\$ 3,770	\$ 3,770
Additions based on tax positions related to the current year	—	—
Additions for tax positions of prior years' recorded to goodwill	41,080	—
Ending balance	<u>\$ 44,850</u>	<u>\$ 3,770</u>

NOTE 19. RELATED PARTIES

The balance of related party notes was \$12.0 million as of December 31, 2020. The related party notes were paid off in full in November 2021. The balance of related party notes was zero as of December 31, 2021. See *Note 11. Notes Payable Related Party* for further details.

J.T. Burnette, the spouse of Kim Rivers, the Chief Executive Officer and Chair of the board of directors of the Company, is a minority owner of a company (the "Supplier") that provided construction and related services to the Company. The Supplier was responsible for the construction of the Company's cultivation and processing facilities, and provided labor, materials and equipment on a cost-plus basis. For the years ended December 31, 2021, and 2020, property and equipment purchases totaled \$148.4 million and \$96.7 million, respectively. As of December 31, 2021, and 2020, \$11.4 million and \$10.4 million was included in accounts payable in the consolidated balance sheets. The use of the Supplier was reviewed and approved by the independent members of the Company's board of directors, and all invoices of the Supplier were reviewed by the office of the Company's Chief Legal Officer. As of January 1, 2022, the Supplier is no longer a related party of the Company.

The Company has many leases from various real estate holding companies that are managed by various related parties including Benjamin Atkins, a former director and current shareholder of the Company, and the Supplier. As of December 31, 2021, and 2020, under ASC 842, the Company had the following in the consolidated balance sheets:

	As of December 31, 2021		As of December 31, 2020	
	Operating	Finance	Operating	Finance
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Right-of-use assets, net	\$ 2,082	\$ 2,009	\$ 12,003	\$ 3,425
Lease liabilities:				
Lease liabilities - current portion	\$ 418	\$ 215	\$ 1,539	\$ 281
Lease liabilities	1,862	2,127	11,083	3,500
Total related party lease liabilities	<u>\$ 2,280</u>	<u>\$ 2,342</u>	<u>\$ 12,622</u>	<u>\$ 3,781</u>

Lease expense recognized for related party leases was \$2.7 million, \$3.5 million, and \$3.1 million for the years ended December 31, 2021, 2020, and 2019, respectively.

NOTE 20. COMMITMENTS AND CONTINGENCIES

Operating Licenses

Although the possession, cultivation and distribution of cannabis for medical use is permitted in Florida, California, Connecticut, Pennsylvania and West Virginia cannabis is a Schedule-I controlled substance and its use remains a violation of federal law. Since federal law criminalizing the use of cannabis preempts state laws that legalize its use, strict enforcement of federal law regarding cannabis would likely result in the Company's inability to proceed with our business plans. In addition, the Company's assets, including real property, inventory, cash and cash equivalents, equipment and other goods, could be subject to asset forfeiture because cannabis is still federally illegal.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. Except as disclosed below, as of December 31, 2021, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated statements of operations and comprehensive income. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

On December 30, 2019, a securities class-action complaint, *David McNear v. Trulieve Cannabis Corp. et al.*, Case No. 1:19-cv-07289, was filed against the Company in the United States District Court for the Eastern District of New York. On February 12, 2020, a second securities class-action complaint, *Monica Acerra v. Trulieve Cannabis Corp. et al.*, Case No. 1:20-cv-00775, which is substantially similar to the complaint filed on December 30, 2019, was filed against the Company in the United States District Court for the Eastern District of New York. Both complaints name the Company, Kim Rivers, and Mohan Srinivasan as defendants for allegedly making materially false and misleading statements regarding the Company's previously reported financial statements and public statements about its business, operations, and prospects. The complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Rule 10b-5 promulgated thereunder. The complaint sought unspecified damages, costs, attorneys' fees, and equitable relief. On March 20, 2020, the Court consolidated the two related actions under *In re Trulieve Cannabis Corp. Securities Litigation*, No. 1:19-cv-07289, and appointed William Kurek, John Colomara, David McNear, and Monica Acerra as Lead Plaintiffs. The Company filed a motion to dismiss on September 11, 2020. The Court granted the motion to dismiss, and final judgement was entered on March 11, 2022, dismissing the Plaintiff's claims with prejudice.

During the year ending December 31, 2021, the Company settled certain litigation matters assumed in acquisitions during the year for \$14.8 million.

Contingencies

The Company records contingent liabilities with respect to litigation on various claims in which we believe a loss may be probable and the loss is estimable. As of December 31, 2021, and 2020, \$8.8 million and \$0.7 million was included in contingent liabilities in the consolidated balance sheets related to pending litigation. The Company also recorded accruals related to sales tax audits or inquiries which were acquired through the Harvest acquisition. As of December 31, 2021, \$2.3 million and was included in contingent liabilities in the consolidated balance sheet for estimates related to various sales tax matters. The Company also has amounts related to vendor disputes and various other matters which are probable and estimable but not known included in contingent liabilities in the consolidated balance sheet.

Regulatory compliance

The Company's compliance with state and other rules and regulations may be reviewed by state and federal agencies. If the Company fails to comply with these regulations, the Company could be subject to loss of licenses, substantial fines or penalties and other sanctions.

NOTE 21. VARIABLE INTEREST ENTITIES

The Company through its acquisition of Harvest and through the acquired Harvest subsidiaries has entered into operating agreements with various entities related to the purchase and operation of cannabis dispensary, cultivation, and production licenses, in several states. The Company determined these entities to be variable interest entities ("VIEs") due to the financial relationship and as the Company is the primary beneficiary as of December 31, 2021. The Company holds ownership interests in these entities ranging from 25% to 49% as of December 31, 2021. The

Company's VIEs are not material to the consolidated financial position or operations as of or for the year ended December 31, 2021. There were no variable interest entities as of December 31, 2020, or 2019.

We have determined these entities to be variable interest entities and that we are the primary beneficiary. We consolidate these entities due to the other holder's equity investment being insufficient to finance its activities without additional subordinated financial support and the Company meeting the power and economics criteria. In particular, the Company controls the management decisions and activities most significant to certain VIEs, has provided a significant portion of the subordinated financial support provided to date, and holds membership interests exposing the Company to the risk of reward and/or loss. The Company allocates income and cash flows of the VIEs based on the outstanding ownership percentage in accordance with the underlying operating agreements, as amended. The Company has consolidated all identified variable interest entities for which the Company is the primary beneficiary in the accompanying consolidated financial statements.

The following table presents the summarized assets and liabilities of the Company's VIEs in which we do not hold a majority interest as of December 31, 2021. The assets and liabilities in the table below include third-party assets and liabilities of our VIEs only and exclude intercompany balances that eliminate in consolidation as included in our consolidated balance sheets. The Company did not have VIEs prior to the acquisition of Harvest.

	Year Ended December 31,	
	2021	2020
	<i>(in thousands)</i>	
Current assets:		
Cash	\$ 1,241	\$ —
Accounts receivable, net	905	—
Inventories, net	2,451	—
Other current assets	313	—
Total current assets	4,910	—
Property and equipment, net	8,335	—
Intangible assets, net	17,735	—
Other assets	544	—
Total assets	\$ 31,524	\$ —
Current liabilities:		
Accounts payable and accrued liabilities	\$ 828	\$ —
Notes payable - current portion	1,170	—
Income tax payable	522	—
Total current liabilities	2,520	—
Notes payable	1,061	—
Deferred tax liabilities	4,479	—
Total liabilities	\$ 8,060	\$ —

NOTE 22. REVENUE DISAGGREGATION

Net revenues are comprised of the following for the year ending December 31:

	2021	2020
	<i>(in thousands)</i>	
Retail	\$ 870,507	\$ 520,217
Wholesale, licensing and other	67,878	1,316
Revenue, net	\$ 938,385	\$ 521,533

NOTE 23. FINANCIAL INSTRUMENTS

Financial Instruments

The Company's financial instruments that are measured at fair value on a recurring basis consist of money market funds and a warrant liability. Our financial instruments whose carrying value approximates the fair value include cash, accounts payable and accrued liabilities, notes payable, notes payable related party, operating lease liabilities, finance lease liabilities, other long-term liabilities and construction finance liabilities. Excluding the money market funds and warrant liability classified at fair value, the carrying values of these financial instruments approximate their fair values.

as of December 31, 2021, and 2020, due to their short-term nature or because the effective interest rate applied to the balance approximates the market rate.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. There have been no transfers between hierarchy levels during the years ended December 31, 2021, and 2020, respectively.

The following tables present information about the Company's financial instruments and their classifications as of December 31, 2021, and 2020, and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value.

Fair Value Measurements as of December 31, 2021, using:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>(in thousands)</i>			
Financial Assets:				
Money market funds (1)	\$ 94,161	\$ —	\$ —	\$ 94,161
Financial Liabilities:				
Warrant liabilities (2)	\$ —	\$ 2,895	\$ —	\$ 2,895

Fair Value Measurements as of December 31, 2020, using:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>(in thousands)</i>			
Financial Assets:				
Money market funds (1)	\$ 65,516	\$ —	\$ —	\$ 65,516

- (1) Money market funds are included within cash and cash equivalents in the Company's consolidated balance sheets. As a short-term, highly liquid investments readily convertible to known amounts of cash, the Company's money market funds have carrying values that is fair value.
- (2) Warrant liabilities represent liability classified warrants acquired from Harvest in October 2021 ("Harvest liability warrants") and included as part of the consideration transferred. See *Note 3. Acquisitions*. The fair value of the Harvest acquired warrants is determined using the Black-Scholes options pricing model. Share Price: C\$3,291; Exercise Price: C\$1,125; Remaining term: 1.31 years; Annualized Volatility: 49.57%; Dividend yield: 0%; Discount Rate: 0.56%; C\$ Exchange Rate: 0.788.

NOTE 24. SUBSEQUENT EVENTS

Senior Secured Notes Due 2026

On January 28, 2022, the Company closed on a second tranche private placement of 8% Senior Secured Notes (the "2026 Notes") for aggregate gross proceeds of \$75.6 million. The Notes were issued at 101% face value, bear an interest rate of 8% per annum payable semi-annually in equal installments until the maturity date, unless earlier redeemed or repurchased. The Notes will mature on October 6, 2026, and may be redeemed in whole or in part, at the Company's option, at any time, on or after October 6, 2023, at the application redemption price set forth in the Indenture.

Acquisition

In February 2022, we entered into a purchase agreement with Sweet 5, LLC and CP4 Group LLC ("Watkins") to acquire a cultivation operation in Arizona and the right to a lease of the facility. The purchase was completed for total cash consideration of \$27.5 million with a potential earnouts of \$22.5 million based on the completion of certain milestones. This acquisition will be accounted for as a business combination in accordance with the Accounting Standards Codification (ASC) 805, Business Combinations. The Company has begun the process to determine the purchase price allocation for assets acquired and liabilities assumed, including estimating the fair value of intangible and tangible assets. These estimates and initial accounting for the business combination have not been completed. As a result, the Company is unable to prove the amounts recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed.

Divestment of VIE

In the first quarter of 2022, the Company completed the divestiture of one of its VIEs through the full repayment of the subordinated financial support provided to the VIE and the sale of its equity interest to the majority shareholder. The total proceeds from the sale were approximately \$1.6 million.